The Standing Senate Committee on Banking, Trade and Commerce

Report on The White Paper Proposals for Tax Reform Presented to the Senate of Canada

SEPTEMBER 1970

The Honourable Salter A. Hayden, Q.C., Chairman

The Honourable Lazarus Phillips, Q.C., Vice-Chairman

MEMBERSHIP OF COMMITTEE

The Standing Senate Committee on Banking, Trade and Commerce

The Honourable Salter A. Hayden, Chairman

The Honourable Lazarus Phillips, Vice-Chairman

and

The Honourable Senators

Aird	Croll	Isnor
Aseltine	Desruisseaux	Kinley
Beaubien	Everett	Lang
Benidickson	Gélinas	Macnaughton
Blois	Giguère	Molson
Burchill	Grosart	Walker
Carter	Haig	Welch
Choquette	Hays	White
Connolly (*Ottawa West*)	Hollett	Willis
Cook		

Ex officio members: Flynn and Martin

(Quorum 7)

Note: The Honourable Senator Leonard served on the Committee until his retirement from the Senate in April 1970. He was replaced on the Committee by the Honourable Senator Aird.

ORDERS OF REFERENCE

Extract from the Minutes of the Proceedings of the Senate, November 19, 1969:

"With leave of the Senate,

The Honourable Senator Martin, P.C., moved, seconded by the Honourable Senator Langlois:

That the Standing Senate Committee on Banking, Trade and Commerce be authorized to examine and report upon the White Paper intituled: "Proposals for Tax Reform", prepared by the Minister of Finance, and tabled in the Senate on Tuesday, 18th November, 1969.

After debate, and—

The question being put on the motion, it was—

Resolved in the affirmative."

Extracts from the Minutes of the Proceedings of the Senate, December 19, 1969:

"With leave of the Senate,

The Honourable Senator Phillips (*Rigaud*), moved, seconded by the Honourable Senator Robichaud, P.C.:

That the Standing Senate Committee on Banking, Trade and Commerce be empowered to engage the services of such counsel and technical, clerical and other personnel as may be necessary for the purposes of its examination and consideration of such legislation and other matters as may be referred to it.

After debate, and—

The question being put on the motion, it was—

Resolved in the affirmative."

Extract from the Minutes of the Proceedings of the Senate, February 18, 1970:

"With leave of the Senate,

The Honourable Senator McDonald moved, seconded by the Honourable Senator Hayden:

That the Standing Senate Committee on Banking, Trade and Commerce have power to sit during adjournments of the Senate.

After debate, and—

The question being put on the motion, it was—

Resolved in the affirmative."

ROBERT FORTIER,
Clerk of the Senate.

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SUMMARY

The following is a summary of the major points and recommendations reported upon by the Standing Senate Committee on Banking, Trade and Commerce in respect of the White Paper proposals for tax reform.

GENERAL

- Approval of certain aspects of the White Paper but substantial modification or rejection of many recommendations contained therein.
- Approval of Government procedure to submit the White Paper for parliamentary hearings before legislation.
- Primary concern that the legislation does not unduly disrupt the economy.
- Coordination with the provinces to be maintained and, if possible, improved.
- Rejection of White Paper conclusion that suggested amendments would not affect savings and emphasis that legislation must preserve savings and the necessary monies for Canadian economic expansion.
- Conclusion a tax system must preserve investment of capital and savings by Canadians and foreigners, as well as the industry, skill and know-how of Canadians in the use thereof.
- Decision a tax system must permit Canada to remain competitive in world markets so that Canadian production may be exported where required.
- Legislation to be drafted to avoid retroactive application of new rules.
- Legislation to provide for issuance of binding tax rulings by Department of National Revenue.

INCOME OF INDIVIDUALS

- Conclusion that the existing more favourable rates of tax in the United States affecting individuals be not further accentuated by increasing Canadian individual rates of tax.
- Increase of personal exemptions from $1000 to $1400 for single persons and from $2000 to $2800 for married persons, but only for single persons with incomes of less than $3000 and for married persons with incomes of less than $8500.
- Elimination by virtue of these increased exemptions of federal income tax on approximately 750,000 low income taxpayers.
- No change in present rates of personal income tax but suggestion of immediate implementation of upper marginal rate of approximately 50% for combined federal and provincial taxes.

- Approval in more liberal form of White Paper proposals for deduction of child care costs of working parents, the flat employee expense allowances of up to $150 and employee moving costs.
- Present tax exemption for fellowships, scholarships, bursaries and research grants to be continued.
- Foreign professors and teachers, temporarily in Canada, should continue to be dealt with under the provisions of Canada's tax conventions.
- Provision of general income averaging formula for all individual taxpayers with amendments to White Paper proposals thereon.
- Present averaging formula for retirement receipts to be retained, with certain improved alternatives for the taxpayer.
- Approval of White Paper proposal to eliminate tax on pension plan distributions to widows by means of contributions to retirement savings funds, but recommendation that benefit be extended to all beneficiaries.

CAPITAL GAINS TAX—GENERAL

- Acceptance of a capital gains tax, but subject to well defined restrictions and limitations in respect of property held for personal use.
- Rejection of White Paper proposal that all capital gains be taxed substantially in the same way as ordinary income.
- Rejection of White Paper proposal which would tax "fast killing" turnovers of publicly listed securities at lower effective rates than patiently held long term private investments.
- Approval of White Paper proposal to value all capital assets on valuation date, but where capital assets worth less on valuation date than cost, capital gain or loss to be determined with respect to such cost.
- Definition of capital assets as property not held primarily for sale to customers in the ordinary course of business.
- Capital gains and losses to be divided into short term gains and losses (capital assets held for less than one year) and long term gains and losses (capital assets held for one year or more).
- Short term capital gains and losses to be treated as ordinary income.
- Net long term capital gains to be taxed at lower of 25% or one-half marginal tax rate of taxpayer.
- Three-year carry back and eight-year carry forward to be provided for long term capital losses.
- Thorough study to be made of concepts of cost basis (cost platform on which capital gain or loss is based) and non-deductible expenses related to capital assets to constitute increase to cost basis.

CAPITAL GAINS TAX—PERSONAL USE PROPERTY

- No gain or loss to be realized and taxed when proceeds of any given sale or exchange less than $5000.
- Lifetime exemption for individuals and their spouses of $50,000 for principal residences and $75,000 for farms, orchards, etc. of farmers.
- Broad roll-over provisions so that no capital gains tax to be payable on personal use property except where disposition thereof not replaced within one year.
- No other differences to be made between personal use property and other capital assets.

CAPITAL GAINS TAX—UNREALIZED GAINS AND ROLL-OVERS

- No capital gains tax on unrealized gains of any nature, therefore elimination of White Paper proposals on five-year revaluation of shares and deemed realization of gain, if any, on such shares as well as on assets of taxpayers leaving Canada.
- Extended definition of permissible roll-overs to permit freedom for corporate reorganizations, exchanges of corporate property and corporate readjustments where no tax avoidance purpose.
- Enactment of provisions to equate purchase of corporate assets and purchase of corporate shares where purchased corporation liquidated within one year.
- Unrealized gains on the exercise of stock options not to be taxable but cost basis for capital gains to be cost of shares under stock option and not value of such shares.
- No capital gains tax on gifts or bequests but recipient thereof to have same cost basis for future capital gains tax as donor or deceased plus amount of gift tax or death duties.

CORPORATIONS—GENERAL

- Maintenance of present low rate of tax on first $35,000 of business income but only for small business corporations which are not part of a larger corporate group and have incomes of $100,000 a year or less.
- White Paper proposal to permit certain corporations to be treated as partnerships approved with minor modifications.
- Permission to be given for corporations to file consolidated returns without increased tax rate.
- 15% penalty tax to be applicable to avoid undue accumulation of certain intercorporate dividends arising from investment.

CORPORATION—SHAREHOLDER RELATIONSHIP

- Rejection of White Paper proposal for integration of corporate and shareholder taxes.
- Rejection of White Paper proposal for difference between closely-held and widely-held Canadian corporations.
- Retention of present system of tax free intercorporate dividends from Canadian corporations and from foreign corporations, 25% or more of whose voting shares are owned by a Canadian corporation.
- Maintenance of present dividend tax credit system for individuals, with increase of present credit to 25% for first $500 of dividends, the application of present 20% credit to next $4,500 of dividends and reduction of present credit to 15% for dividends in excess of $5000.
- Recommendation of simplified methods for distributing corporate surpluses through payment of flat 15% tax thereon.
- Public utilities to be treated no differently than other Canadian corporations.

BUSINESS INCOME

- Approval of White Paper proposal on depreciation allowance for "nothings" but exclusion of goodwill as a depreciable asset.
- Rejection of accrual system reporting for taxpayers in the professions.

SPECIAL TAXPAYERS

- Concurrence with White Paper proposal that certain private clubs and organizations now tax exempt should be taxed on their investment income, but recommendation that rule apply only to net income in excess of $5000.
- Rejection of White Paper proposal of flat tax rate on all trusts.
- White Paper proposal approved that certain publicly held trusts and similar entities be taxed as corporations or mutual funds.
- Present treatment of mutual funds to be substantially continued.
- No limitation on deductions for gifts to museums and similar institutions based on difference of state ownership and private ownership.

MINERAL RESOURCES

- Concurrence in general proposition that incentives must continue to be given to the mineral resource industries.
- Approval of White Paper proposals for deduction of costs of acquisition of mining rights and taxation of proceeds of disposition thereof but with protection against tax on present values.

- Present three-year exemption for new mines to be extended to only 75% of net earnings during such period.
- Earned depletion procedure of White Paper approved in part, when blended with present depletion allowance, but recommendation made for extended definition of eligible expenditures which can earn deplition.
- Approval of White Paper proposal to remove shareholder depletion.
- Transition period for existing properties to be extended beyond periods provided in White Paper.

TAX LOOPHOLES

- Determination to close tax loopholes, but doubt on basis of evidence that they are very extensive.
- Conclusion that White Paper proposal to adopt United States system for taxing off-shore companies impractical and unnecessary.
- Rejection of White Paper proposal to eliminate legitimate and necessary entertainment expenses.
- Approval and extension of White Paper proposal that excess depreciation on real property and other related expenses should reduce taxable income from other sources, but rejection of the White Paper proposal to to the extent it would apply to presently owned assets and to assets used by taxpayers in their business.

INTERNATIONAL INCOME

- Conclusion, contrary to the White Paper, that the White Paper proposals would seriously reduce foreign investment in Canada without necessarily doing so in areas desired by Government policy.
- Amendments to law must be consistent with accepted international tax practices and reasonable possibility of negotiating new tax treaties.
- Refusal to accept White Paper proposals distinguishing between countries which do and do not have tax treaties with Canada, since underdeveloped countries would be prejudiced.
- Elimination of defined "foreign business corporations" and decision that all companies incorporated in Canada to be automatically resident in Canada and subject to full Canadian taxation.
- Rejection of White Paper proposal to tax capital gains of foreign investors not carrying on business in Canada.
- Partial acceptance and extension of White Paper proposal for foreign tax credits.

PROLOGUE

The purpose of this Prologue is:

(A) to put in proper perspective some basic observations necessary in the opinion of your Committee to a study of the White Paper on Tax Reform, and

(B) to deal with the changes to the White Paper on Tax Reform proposed by the Minister of Finance after its publication on November 7, 1969, its tabling in the Senate and the House of Commons and the reference by such bodies of the White Paper to their appropriate Committees for study and report.

Your Committee wishes to outline first, under heading (A), its concept of the guidelines that should govern the consideration of the White Paper proposals on Tax Reform:

(1) Economic growth in Canada can come about only through the investment of capital and savings by Canadians or foreigners plus the industry, skill and know-how of our people in the use of such capital and savings.

(2) Canada is, of necessity, a capital importing country. The development of our natural resources such as mining and gas and oil require substantial risk capital which in the past has come largely from the United States mainly because of our political and economic stability. More and more, however, the position and approach of the United States is undergoing change so that it is now exporting capital outside of Canada and more generally around the world where wages, taxes and other costs are more favourable. This change in approach and the expansion of United States operations abroad arise by reason of their balance of payments requirements and otherwise. The competition for capital, including risk capital, in world markets makes it necessary that Canada meet such competition or suffer a diminution in capital inflow with disastrous effect on our economic growth, prosperity and standards of living. The guidelines for Canadian tax policy in these circumstances must blend equity with our capital needs and maintenance of our competitive position in the export market. It is not enough to achieve equity in taxation if it takes place at the expense of reduced economic growth. We cannot afford to put a chill on the initiative of our industry and on those people who are making such increased economic growth possible.

(3) It is necessary to remain competitive in world markets so that our production may be exported and this requires a cost level in Canada, from the point of view of taxation and otherwise, which will permit the establishment and maintenance of such competitive position.

Your Committee will examine the proposals in the White Paper in the light of these self-evident truths and in an objective way so that fairness in taxation and recognition of the tax position of our lower income groups can be harmonized with the needs of our country to keep up its economic growth, to encourage the inflow of capital and expansion of exports and to maintain our competitive position in the world markets. Sharing the tax burdens equitably is an excellent principle, but the other objectives so necessary to be maintained must be harnessed with them so that our economic growth and world trade status is not adversely affected.

Under heading (B) above your Committee wishes to give consideration to some aspects of the proposed changes to the White Paper put forward by the Minister of Finance since the publication of the White Paper:

(1) Proposals made in the House of Commons by the Minister of Finance on November 28, 1969, in relation to the capital gain tax on bonds.

(2) Proposals made on that same day in the House of Commons by the Minister of Finance on the taxation of the parent company of a utility company subsidiary.

(3) Proposals (including an undertaking by the Government through the Minister of Finance by letter addressed both to the Senate and the House of Commons Committees respectively) dated June 11, 1970, as to the adjustment of tax rates to offset projected increases in revenue which the White Paper states would amount to $630,000,000 in 1969 if that year had been the fifth year of the operation of the White Paper proposals for rate increases. A statement on the same subject was also made to the House of Commons by the Minister of Finance.

(4) The proposals made by the Minister of Finance on August 26, 1970, in a letter to the provincial Finance Ministers and Treasurers dealing with the taxation of the Canadian mining industry and the changes to the White Paper applicable to such industry.

Your Committee will first deal with the change or modification (as the Minister calls it) set out in paragraph (1) above in relation to the application of the capital gains tax to bonds and certain analogous investments. In the White Paper, paragraph 3.29, it was proposed that if the value of a bond held by a taxpayer was less on valuation day than the cost to him of that investment or his amortized cost (if he bought it at a discount) the recovery

of cost or amortized cost would not be taxed. This rule would have applied only to bonds, mortgages and agreements for sale held on date of publication of the White Paper, November 7, 1969, and the modification of this rule was effected to accord the same treatment to bonds, mortgages and agreements for sale purchased between November 7, 1969, and valuation day. This modification of the rule will assure that a bond market dip extending through valuation day will not cause taxpayers who buy bonds and mortgages now (that is, after White Paper publication day) to pay tax on more than the real gain over their historic cost. This modification, moreover, conforms with the general recommendation of this report that taxable capital gains be limited in the case of *all* capital assets to the lesser of the gain over value on valuation date or historical cost. It also eliminates elements that might have interfered with the marketing of new bond issues and trading in bonds in the period between White Paper publication day and valuation day and is therefore to be commended.

The next change or modification referred to in (2) above has to do with dividends passing from a gas, steam or electric utility company to its parent company. Under paragraph 4.64 of the White Paper the federal government proposed that no credit for federal taxes paid by a gas, steam or electric company, part or all of which are paid over by the federal government to the Provincial governments, should be accorded to shareholders of such utility corporations. This proposal flies in the face of the Government's scheme for creditable tax to be enjoyed by all resident shareholders of corporations that have paid corporate tax. Clearly the utility corporations pay corporate tax to Canada. What the federal government does with that tax money is in no way subject to the direction or for the benefit of a utility corporation, and the proposed denial of creditable tax to the shareholders of such a utility corporation is illogical and a violation of the federal government's own scheme for the granting of creditable tax. It is the federal government that disburses to the Provincial governments 95% of the Canadian corporate taxes paid by each utility corporation. The modification in (2) above put forward by the Minister of Finance remedies this situation to some extent. It "provides that a parent company can receive tax-free a dividend from a subsidiary that is a gas, steam or electric utility provided the dividend is paid out of profits which have borne the tax (the federal government) is turning over to the province." To this extent the modification corrects the basic misconception in paragraph 4.64 of the White Paper. Assuming retention of the integration system of taxing corporate and shareholder profits, which your Committee will strongly recommend against, this rule should be generally applied to all resident shareholders of gas, steam and electric utilities that pay corporate taxes subsequently turned over by the federal government to the Provinces.

The next change or modification referred to in (3) above is one by which the Minister of Finance hopes "to make it crystal clear that its (the Government's) intention with respect to the White Paper is to reform the tax system, not to increase taxes". The undertaking of the Minister on behalf of the Government is that "the legislation . . . to implement its tax reform measures will include a fixed schedule of declining income tax rates for each of the first five years of its operation" in order to "provide for tax cuts in each of the five years designed to ensure that the revenues produced under the new system will not exceed the total that would be produced if the present system remained in effect". The Minister acknowledges as is apparent from a reading of the White Paper that the system outlined in the White Paper would have produced an additional $630,000,000 in 1969 if that had been the fifth year of its operation. The serious impact of taking such substantial moneys from the private sector into the public sector has been stressed in many of the submissions made to your Committee. Its impact on savings and on the operations of the classes of individuals who will be most affected threatens the very classes of taxpayer whose savings are most needed in the development of our economy. The Minister has put in words what the public has been saying—why increase tax rates to produce excess tax revenues when they are not needed and when no purpose for their use is made evident. No budget has been placed before Parliament nor the nature of any budget proposals indicated that would require the levying of tax rates so onerous on so many classes of Canadian citizens.

As shown in the body of this report, the design of the White Paper was to give increased personal exemptions to all individual taxpayers while, at the same time, increasing the tax rates on single persons with incomes in excess of $3,000 and married persons with incomes in excess of $8,500, constituting approximately 44% of all Canadian individual taxpayers. The effect of this would be, on the one hand, to give increased personal exemptions to these latter taxpayers while, at the same time, more than taking back the benefits of such increased personal exemptions by increased rates of tax. *It can be clearly seen that if the increase in personal exemptions was not accorded to single persons with income of $3,000 or more or married persons with income of $8,500 or more, the amount of revenue loss to Canada would be drastically reduced and for reasons hereinafter set out there would be no necessity to increase the tax rates on this 44% of Canadian individual taxpayers.*

In such circumstances it appears to your Committee that the proper course at the very least would have been not to increase taxes on single and married persons having incomes above $3,000 and $8,500 respectively beyond what it required to replace any loss in revenue by reason of the in-

creased exemptions to the other groups of taxpayers. However, your Committee has concluded in its report that no such increase is either necessary or desirable, since the added revenues from capital gains tax should be sufficient to make up any loss of revenue. In addition, by not implementing the integration and creditable tax proposals, which implementation was recommended against by your Committee, the very substantial loss of revenue estimated by the White Paper (namely $140,000,000 in the first year) would also be available to make up any loss of revenue.

In brief, the Committee's proposal is that instead of increasing taxes on some classes of individuals to the substantial extent proposed by the White Paper, the existing income tax rates should be maintained, but the personal exemptions should not be extended to all taxpayers. The Government could then await the actual flow of taxes under the system and could analyse the impact on the tax revenue before any decision to levy in whole or in part the tax increases contemplated by the White Paper. This appears to your Committee a much more practical course and the results could well produce the required tax revenues without disturbing the savings and investment habits of many people and hurting the economic growth patterns of our country.

With respect to (4) above, the last item in respect of which the Minister of Finance has suggested modifications, the changes are in relation to the mining industry and some of the proposals of the White Paper thereon. This modification was effected in a letter to the Provincial Finance Ministers and Treasurers dated August 26, 1970. Your Committee already had prepared its report on the subject of the mining and the oil and gas industries which remains unchanged in the body of the report. Your Committee, however, wishes to discuss the new suggestions of the Minister as to the tax treatment of the mining industry as these appear in the memorandum attached to his letter.

The Minister proposes to widen the definition of eligible expenditures on which depletion may be earned, by including in eligible expenditures, expenditures made for replacement of mining machinery and mine buildings acquired in connection with expansion of an existing mine. This proposal, it is suggested, would put an *existing* mine on a comparable tax basis with the incentives available to a *new* mine in the White Paper. A further change is to lower the rate of federal tax on the industry from 40 percent to 25 percent of taxable income. These changes proposed by the Minister represent a basic change in the incentives put forward in the White Paper. The industry in its submissions strenuously contended for such changes demonstrating that without them, existing mines would be subject to heavy additional tax

with less retained earnings for development and with less opportunity to earn depletion by reason of the restrictive definition of eligible expenditures on which earned depletion was to be calculated.

A complete assessment of the extent and benefit of these changes cannot be made until the details of the new definition of eligible expenditures are settled and there is published the extent to which the incentives for new mines will be made fully available to existing mines. The changes proposed by the Minister represent a long step forward to meet the claims of the industry and to acknowledge the inadequacies of the White Paper proposals on these points. They also point up the less generous treatment inherent in the White Paper proposals which the White Paper originally stated was entirely sufficient and should make for a smooth transition for the industry from the old rules to the new rules. These changes are in line with recommendations of this Committee but the Committee wishes to stress that they do not deal fully with the needs of the industry in the way of special rules. Those mines that cannot earn depletion even with the enlarged definition of eligible expenditures are not helped. All mines that were financed under the old special rules are not offered relief by these proposed changes. These changes do not recognize the need for some element of percentage depletion to be continued both as an assistance to financial commitments and more importantly as an attraction to raise risk capital competitively in markets where the tax exemption period and depletion are the pattern of financing and offer the kind of reward that such suppliers of capital require. The return of capital if the mine comes into successful operation and the interest or dividend yield are not sufficient attractions.

It is significant too that the reaction from the mining industry has not thus far produced uniform support for these proposals. Objection or support appears to proceed on the basis of the nature of the mining operation being carried on, whether open pit or underground development and the extent of the broadening of eligible expenditures. Due to the special problems of pollution and the like, any incentive for processing at this time may be more illusory than real, having regard to the problems identified with the establishment and operation of processing facilities. In addition some mining companies feel that the construction of refineries should receive the same benefits by way of incentive. Other mining companies feel that the cost of all assets required to place a new mine in operation including off-property assets such as roads, townsites etc. is properly part of the exploration and development of mineral resources and should be included in eligible expenditures. The recommendations of your Committee in this report do not deal with this aspect. These reactions by the industry are prompted by the latest statement of the Minister of Finance of August 26th, 1970.

Special rules for incentives are needed that will attract capital to an industry where failures in any particular case can far outnumber successes. The special risks are clear to those who venture into this field. A cost basis that makes Canadian production of these natural resources competitive in world markets requires adequate incentives and the provision of risk capital at rates consistent with those available to competitors who are also producers from other parts of the world. The plus features that assure attractiveness to risk capital are the incentives that in a successfully operating mine will produce rewards in capital appreciation to those who venture their capital in such risk operations.

Nothing is said directly in the Minister's letter as to the position of the oil and gas industry in these new proposals. The Committee fully expects that the same broadening of eligible expenditures and extension of other incentives will also apply to such industry as the need for the same has been established before it.

CHAPTER 1

I

INTRODUCTION

1. On November 7, 1969, the Honourable E. J. Benson, Minister of Finance, issued a document entitled "*Proposals for Tax Reform*", and generally referred to since its issuance as the "White Paper" on taxation. On November 18, 1969, the leader of the Government in the Senate tabled these proposals for tax reform and, by resolution of the Senate, on November 19, 1969, the consideration of such proposals for tax reform was referred to the Standing Senate Committee on Banking, Trade and Commerce. This report constitutes the result of such consideration.

2. For purposes of brevity and identification "*Proposals for Tax Reform*" will be referred to in this report as the "White Paper" and the Standing Senate Committee on Banking, Trade and Commerce will be referred to as "your Committee" or "the Committee".

3. Pursuant to authority granted to your Committee by the Senate, your Committee retained the services of a limited staff comprising Arthur W. Gilmour, B. Com., C.A., F.R.I.S., a recognized expert in tax accounting matters, Alan J. Irving a former member of the legal staff of the Department of National Revenue and Roland B. Breton, on loan from a large trust company, as executive secretary. Your Committee is indebted for the valuable contribution made by these gentlemen.

4. Your Committee has studied carefully the contents of the White Paper and has in the course of such studies received and listened to representations made by a wide variety of taxpayers at thirty-one meetings held by your Committee between January 28, 1970 and June 24, 1970. Attached to this report as Schedule "A" is a list of all the companies, organizations and individuals that have been heard before your Committee. Attached hereto as Schedule "B" is a list of additional companies, organizations and individuals who made representations, but did not appear before your Committee. In addition to the representations hereinbefore referred to, your Committee received a considerable number of letters and other communications dealing with different aspects of the White Paper proposals.

In all, the studies and representations made by taxpayers and other interested bodies in Canada have reflected an intensive study of the White Paper proposals, and the Canadian public is to be congratulated for the interest shown and for the quality of the submissions.

5. The conclusions arrived at by your Committee are based upon its own study of the White Paper after giving due consideration to the representations that have been made to it.

6. Your Committee has concluded that the public hearings held with respect to the White Paper have had some effect in convincing the Government that substantial modifications to the White Paper are necessary, and to date some of these modifications, limited in scope but important in themselves, have already been announced and are referred to in the Prologue to this report. These modifications encourage your Committee to hope that a study of this report will lead to further substantial and important revisions of the White Paper proposals, since the Committee is convinced that such modifications are essential.

II

METHOD OF PROCEDURE OF THE COMMITTEE

1. It will be helpful to indicate the procedure that your Committee intends to follow in reporting its conclusions with respect to the White Paper proposals.

2. Chapters 2 to 6 inclusive of the White Paper describe in detail the proposals related to the various headings of such chapters, and following this introductory chapter your Committee will report under such respective headings its recommendations and conclusions in respect of the said chapters 2 to 6 inclusive.

3. In this first chapter of its report, your Committee will deal in general terms, and from time to time more specifically, with the submissions of the White Paper contained in chapters 1, 7 and 8 thereof. The format will, in the main, follow that adopted by the White Paper, particularly in the treatment of the matters referred to in chapter 1 thereof.

4. Before, however, reporting on these separate chapters of the White Paper, your Committee wishes to indicate some of the main areas of agreement and some of the main areas of disagreement between the proposals of the White Paper and the findings of your Committee.

III

AREAS OF AGREEMENT AND DISAGREEMENT

AREAS OF AGREEMENT

1. Your Committee commends the Government and the Minister of Finance for the submission of the White Paper for public hearings and for the decision not to implement the White Paper proposals into legislation until amendments to such proposals may be made as a result of such hearings. The Committee desires to report that practically all those who have submitted representations have referred with approval to this procedure as constituting a most desirable form of participatory democracy with respect to taxpayers subject to federal tax legislation.

2. The desire to strive for harmony between federal and provincial tax policies and practices is also commended by your Committee and it heartily concurs in the observations contained in paragraph 1.15 of the White Paper and the general subject matter of coordination with the provinces as dealt with in chapter 7. The Committee wishes to particularly note the comments in paragraph 7.1 White Paper on the previous high degree of coordination between the federal and provincial income tax systems, which comments the Committee believes are of great relevance and significance.

3. Your Committee concurs in the general thrust of those areas of the White Paper which indicate a desire to grant relief to taxpayers in the lower income brackets, to institute new areas of taxation such as capital gains and to provide necessary changes in our present income tax law so as to bring about a more equitable distribution of the tax burden. Your Committee notes with special approval the intention to remove from the income tax rolls approximately 750,000 taxpayers (paragraph 1.26 White Paper) and to increase the basic income tax exemptions for both single persons and married couples (paragraph 1.25 White Paper), although in this regard it would limit such increased basic tax exemptions to lower income bracket taxpayers.

4. Your Committee also wishes to express its approval of the proposition that the top rates of combined federal and provincial income tax should be reduced to 50 per cent (paragraph 2.42 White Paper). Your Committee expresses the hope that this goal is feasible of attainment. It wishes to go beyond the White Paper, however, and trusts that this reduction can be enacted without any time phasing procedure. The Committee realizes that the conclusion of the White Paper on the maximum 50 per cent rate was based on the estimate that capital gains would be taxed on the same basis as

ordinary income. Your Committee, however, feels that its conclusion as to a lower rate of tax on capital gains does not militate against the general proposition, supported by the Royal Commission on Taxation (paragraph 8.36 White Paper), that the interests of the economy demand a maximum marginal tax rate of 50 per cent. Whatever difference there may be in revenue collection between the proposed capital gains tax and that suggested by your Committee, it should not be large enough to eliminate the desirability of not asking any individual to pay more than 50 per cent of his marginal income in income taxes.

5. Your Committee further notes with approval the intention indicated to provide a deduction for child care costs for families where both parents work or where there is only one parent and that parent is working (paragraph 1.33 White Paper). Your Committee appreciates that this exemption does not solve the overall problem of child care costs but it is at least a step in the right direction. Your Committee also commends the suggestion of an employee's expense allowance of up to the lesser of 3 per cent of employment income or $150 a year in recognition of the money it costs wage earners to do their work (paragraph 1.32 White Paper).

6. The Committee was in agreement with a substantial number of other matters recommended by the White Paper, such as the elimination of foreign business corporations (paragraph 6.31 White Paper et seq.), the cancellation of the 4 per cent tax on foreign investment income over $2,400 (paragraph 2.37 White Paper), the application of new rules to certain kinds of trusts that have issued transferable or redeemable units (paragraph 5.56 White Paper), the taxation of certain income of non-profit organizations (paragraph 5.54 White Paper), etc. The full list of these matters which have been approved by your Committee appears in the several chapters of this report that follow.

AREAS OF PARTIAL OR TOTAL DISAGREEMENT

7. Your Committee does not agree with the proposals in the White Paper which would increase the taxes on a wide spectrum of individuals (including particularly those in the middle income brackets) who are already subject to a high graduated income tax under the present law. On the basis of Tables 4 through 10 of the White Paper and further information furnished to your Committee, when the changes in federal taxes and the estimated changes in provincial taxes are taken into account it would appear that, on the average, based on 1967 actual tax statistics, the tax payable by an unmarried person under the White Paper proposals will increase commencing at approximately the $3,000 level and the tax payable by a married person under the White Paper proposals will increase commencing

at approximately the $8,500 level, with the highest absolute increase being imposed on incomes between $13,000 and $14,000 in the case of both single and married persons.

8. The Committee finds itself in disagreement with a considerable number of the changes suggested by the White Paper for the taxation of individuals and the reportage of their income. Thus, your Committee disagrees with the recommendations for the accrual reportage of professional income (paragraph 5.46 White Paper), the inclusion of the additional elements of income subject to tax referred to in paragraphs 2.24 and 2.26 of the White Paper and the total disallowance of entertainment expenses (paragraphs 5.9 and 5.10 White Paper). With respect to paragraph 5.46 White Paper none of the evidence presented to your Committee convinced it that, in fact, professionals as a class have received "unwarranted advantage by comparison to the rest of Canadians" due to the method of their reportage of income. Conversely, the briefs submitted to the Committee convinced it that any attempt to adopt an accrual method of reporting income for professionals would be impracticable and virtually unworkable.

9. Your Committee is opposed to the introduction of a complex gross-up and credit system (the so-called integration system) for the taxation of corporate dividends, and with some changes recommends retention of the present system of taxing dividends in the hands of both individual and corporate recipients and a simplified method for distributing corporate surpluses under *Section 105* of the present Income Tax Act. The Committee is equally opposed to any difference being made between closely-held and widely-held Canadian corporations.

10. Your Committee accepts the proposed introduction of a capital gains tax but is opposed to the rate of tax to be applied thereto, to the category of capital assets to be subject to taxation, to any taxation without realization of gain or loss and generally to the treatment of capital gains and losses as proposed in the White Paper. Your Committee in this regard is of the view that all capital assets of every nature should be subject to capital gains or loss treatment, but at different rates for long term and short term gains and losses. The Committee also feels that certain exclusions should be made where the proceeds of sale or exchange of property held for personal use do not exceed $5,000, and that a lifetime net gain exemption should be given in an amount of $50,000 for principal residences and $75,000 for orchards and farm where the owner is an individual or his spouse and their principal occupation is farming, (or where such individual or spouse, because of statutory provisions, is obliged to operate such farm through corporate ownership). In addition, your Committee feels that very broad roll-over provisions should be enacted for principal residences, transactions

of property held for personal use and corporate reorganizations. Beyond this, in order to avoid any realization of gain or loss for tax purposes where there has been no gain or loss by conventional economic standards, your Committee recommends that in addition to an initial cost basis of value on valuation date, to protect taxpayers whose historical cost is above such value, gain or loss should be computed with reference to such historical cost and not with reference to such value.

11. Your Committee does not agree generally with the proposal to eliminate the lower corporate tax rate on annual income up to $35,000 (paragraphs 1.39 and 1.41 White Paper), but it does agree that such lower rate should only apply when such earnings are made by defined small businesses. See the Appendix to this report.

12. The Committee cannot agree with most of the changes proposed for the taxation of international income, including particularly the differences suggested for withholding tax rates and tax credits between treaty and non-treaty countries and the methods of attacking tax haven entities.

13. Your Committee is in agreement that some modifications should be made with respect to the three-year tax exemption for mines, the depletion allowances and generally the tax incentives granted to the natural resource industries. Because, however, of the importance of these industries to the Canadian economy, your Committee is of the view that the suggested changes in the White Paper are too radical and disruptive in their economic effects, and alternative suggestions will be submitted in this report.

14. Your Committee, on the basis of the briefs presented to it, has considerable doubts as to whether the impact on revenues and the economy set forth in Chapter 8 of the White Paper are factually correct and, in any event, because of the substantial number of estimates and assumptions made therein, the Committee is reluctant to conclude that the various tables and results set forth in the White Paper have necessarily any relation to what the ultimate facts will be.

15. Your Committee has concluded that some of the White Paper proposals, including the capital gains tax, if implemented, would be retroactive in their effect, affecting particularly those long term investments (such as those in the natural resource and real estate industries) made on the reasonable expectation that the present tax structure would be maintained subject to normal reforms and revisions from time to time. Because of the complicated adverse reactions that would result from such retroactivity, both on the domestic as well as the international level, your Committee will recommend in certain instances where changes are to be made that they be phrased so as not to be retroactive in their effect.

16. The reasons for the foregoing areas of agreement and disagreement and the justifications for the alternative proposals submitted by your Committee in the succeeding chapters of this report will become more evident as the conclusions reflected in this report are explained. Certain of these explanations (headings IV to IX) will now be covered under the six headings of main points stated by the White Paper (paragraph 1.5 White Paper) as constituting the main objectives of the White Paper proposals and the remainder under a number of additional headings (headings X to XIV).

IV

THE TAX BURDEN ON INDIVIDUALS

> *"Canadians in the lower income tax brackets face a heavy total tax burden. In recent years sales taxes and property taxes have been increased substantially. Where changes in the income tax can provide relief, it must be given to those with lower incomes. The government proposes increases in the exemptions to ease the burden on these individuals and families."* (paragraph 1.5 White Paper).

1. The expected effects of the White Paper personal income tax changes on revenues, calculated on the basis of 1969 incomes, are found in table 15 on page 95 of the White Paper. Paragraph 1.25 White Paper proposes to remove or reduce taxes on lower income taxpayers by increasing the basic personal exemption for a single person to $1,400 from $1,000 and for a married couple to $2,800 from $2,000. Since, however, these increased basic tax exemptions would apply to *all* taxpayers, the cost of this procedure is declared by table 15 to be one billion dollars. To offset this loss in revenue, item 2 in table 15 indicates that rate schedule changes will be effected resulting in increased revenue of $1,255,000,000.

2. The effect of the White Paper proposals on exemptions and tax rates can be summarized as follows:

(a) The elimination from the tax rolls of approximately 750,000 persons now subject to tax;

(b) The increase of the personal exemptions of all taxpayers; and

(c) The increase or decrease in certain income brackets of the rates of tax.

3. The expected loss of one billion dollars resulting from increased personal exemptions (paragraph 8.14 White Paper) and the expected revenue

of $1,255,000,000 resulting from increased tax rates (paragraph 8.15 White Paper) are based upon the estimated 1969 incomes of taxpayers and on a further series of assumptions that may or may not be valid. Your Committee in making its analysis has decided to base itself on the actual 1967 taxation statistics without making any adjustment for subsequent increases in income or number of taxpayers, since it concluded that the extrapolation of the 1967 statistics to 1970 or 1971 would not deteriorate from its conclusions. Based on the 1967 figures submitted to your Committee, if the White Paper proposals were applied thereto, the following approximations are reached:

(a) 678,000 taxpayers would be eliminated from the tax rolls as a result of granting the increased personal exemptions to persons whose annual income does not exceed $1,500 in the case of single persons or $3,000 in the case of married persons and the revenue loss to Canada resulting therefrom would be $25,000,000;

(b) 3,070,000 taxpayers would benefit by the increased personal exemptions to persons whose annual income is between $1,500 and $3,000 in the case of single persons and between $3,000 and $8,500 in the case of married persons and the revenue loss to Canada resulting therefrom would be $342,000,000. As a result, however, of the proposed increased tax rates in the White Paper there would be a tax increase on this group of $210,000,000 so that the net loss to Canada would be $132,000,000; and

(c) 2,897,000 taxpayers would benefit by the increased personal exemptions to persons whose annual income exceeds $3,000 in the case of single persons and exceeds $8,500 in the case of married persons and the revenue loss to Canada resulting therefrom would be $286,000,000. As a result, however, of the proposed increased tax rates of the White Paper there would be a tax increase on this group of $525,000,000, so that the net gain to Canada and the net increased tax on this group would be $239,000,000.

The taxpayers mentioned in Groups (a) and (b) above constituted some 56 per cent of the 1967 Canadian taxpayers, with the remaining 44 per cent being accounted for in Group (c). The total cost to Canada from the elimination of the taxpayers in Group (a) and the benefits to taxpayers in Group (b) (totalling $157,000,000) would therefore be more than offset by the proposed net increase in revenue to Canada of $239,000,000 from those taxpayers in Group (c).

4. The desire to improve the position of Canadians in the lower income brackets has led your Committee to conclude that the taxpayers referred to in Group (a) should be eliminated from the tax rolls and that the

benefits contemplated in the White Paper for those persons in Group (b) should also be granted, but your Committee cannot accept the proposal of the White Paper whereby the taxpayers in Group (c), who represent some 44 per cent of the taxpayers in this country, should be subjected to higher income tax liability.

5. Your Committee therefore recommends that the increased personal exemptions suggested in paragraph 1.25 of the White Paper be only given to individuals whose income does not exceed $3,000 in the case of single persons and $8,500 in the case of married persons with an appropriate notch provision for persons just over these limits. If this plan were followed and single persons with income over $3,000 and married persons with income over $8,500 received no part of the increased exemptions, the loss of revenue would, of course, not be anywhere near the estimated loss of one billion dollars referred to in table 15 and it would, therefore, not be necessary to increase the rate schedules which your Committee feels would be disastrous to those in the middle income brackets.

6. By limiting the total proposed increase in the basic tax exemptions to those in the lower income brackets the result would continue to be that some 750,000 Canadians would still be taken off the income tax rolls and, furthermore, that the continuing taxpayers in the somewhat higher income brackets would obtain some additional tax relief. The higher basic tax exemptions which the White Paper proposes to grant *all* taxpayers, including single persons with income over $3,000 and married persons with income over $8,500, followed conversely by an increase in graduated tax rates, appears to your Committee to be quixotic and unacceptable. In view of the proposed imposition of a capital gains tax and the elimination of the integration system for corporations and their shareholders, your Committee is convinced that the cost to Canada of the benefits to be extended to the taxpayers in Groups *a*) and *b*) referred to in Clause 3 above can be accepted without shifting the burden of such benefits on to the shoulders of the taxpayers in Group *c*).

7. As already indicated, your Committee is gravely concerned that the White Paper proposals would increase the burden on married couples with incomes ranging from approximately $8,500 upwards, thereby including those taxpayers who are generally described as the middle income group. In addition, the proposed rates schedules do not give effect to the fact that all of the provinces will probably not adopt a uniform tax rate of 28 per cent of the new federal taxes so that the effect on the middle income group will therefore be more extreme because there will be more taxpayers in that category and closer to the top levels of that category. This middle

income group is the group in Canada that must be relied upon in the main for skilled technical training and executive and managerial ability.

8. The increased tax rates applicable to the middle income groups would increase the already existing adverse disparity between rates applicable to such groups under the Canadian and the United States tax systems, and would have the inevitable effect of contributing to the gradual emigration of skilled workers and those with executive talent from Canada. Your Committee cannot agree with the statements made in paragraph 8.39 of the White Paper on the comparison of Canadian and United States income taxes, which reads as follows:

> 8.39 The Canadian income taxes proposed in this paper, plus the Canada (or Quebec) Pension Plan contributions, would normally be less than the current U.S. income taxes plus their social security contribution, for single persons at all income levels. They would also be less for most married persons; for example, those with two children and earning $8,000 or less. At higher income levels married persons would pay somewhat more in Canada, depending on their incomes and circumstances. The differences are not large until incomes exceed, say, $20,000, and above that the gradual reduction of the top rates to about 50 per cent would limit the gap. We believe that these differences for married persons with higher incomes could best be met in the market by adjusting the pay scales for those individuals or scarce categories who must be retained or attracted against U.S. competition.

It would appear that under certain fact assumptions (including itemized deductions for medical and dental expenses, charitable contributions and other miscellaneous deductions) federal United States taxes are higher than those proposed for Canada only upon single individuals with incomes of approximately $3,000 or less and upon married individuals with incomes of approximately $5,000 or less and that federal United States taxes commence to be materially lower than Canadian taxes when earned income exceeds approximately $10,000. The more favourable effect of United States income taxes is accentuated further when it is realized that state income taxes in the United States are for the most part lower than provincial income taxes in Canada and that, in the case of married persons, the right in the United States to file a joint income tax return further effectively reduces the over-all tax burden of most married persons. Your Committee finds it particularly difficult to accept the last sentence in paragraph 8.39 of the White Paper, since in the opinion of your Committee the notion that the market place will inevitably adjust the disparity in tax rates is totally unrealistic. Finally, your Committee most emphatically rejects the skeptical conclusions of paragraph 8.38 White Paper and would regret any system whose ability to retain Canadians in Canada is based on what may be only temporary restrictions in the United States immigration law.

9. As noted previously your Committee is in favour of reducing the maximum marginal tax rate on individuals to 50 per cent but it realizes that

this desire can only be effectively implemented in the case of provinces that would impose a tax rate lower than 28 per cent of the federal taxes. The White Paper itself acknowledges that the 50 per cent rate suggested by paragraph 2.42 White Paper could only apply in such circumstances, since in paragraph 2.44 White Paper the combined federal and provincial rates are estimated at 51.2 per cent in provinces that impose tax at the rate of 28 per cent and correspondingly higher in provinces that impose higher rates. The various tables set forth at the end of Chapter 2 of the White Paper have assumed (*a*) that all provinces will change their established tax systems to a system where the provincial tax will be a uniform percentage of the new federal tax and (*b*) that all provinces will reduce their present tax rates to a uniform 28 per cent of the new federal taxes. Since this assumption is not realistic, the figures set forth in these tables are, therefore, to that extent suspect. Beyond this, the authors of the White Paper estimate that the cost of reducing the maximum rate to 51.2 per cent will be $40,000,000, based on 1969 incomes (Chapter 8, Table 15, Item 9 White Paper). On the basis of figures presented to the Committee, the estimated cost of this type of reduction, based on 1967 incomes, would only be approximately $21,585,000.

10. The Committee was presented with a substantial number of briefs from varying sectors of the economy dealing with the additional elements of income to be subject to tax and referred to in paragraphs 2.21 to 2.27 of the White Paper. While accepting the fact that pure logic might dictate the inclusion of all of these additional elements into taxable income, your Committee has concluded on the basis of its hearings that in certain instances to do so would be a mistake and that the conceivable revenue gains resulting therefrom would be more than offset by the unfavourable social consequences thereof. Your Committee cannot come to the conclusion that under any circumstances fellowships, scholarships, bursaries and research grants should be made subject to tax. In this respect your Committee was impressed with the evidence submitted by various universities and teaching associations that the taxation of fellowships, scholarships and other grants would inhibit research and other studies in Canada and would lead gifted students to go abroad and continue their studies and research in a more favourable tax atmosphere. On the question of foreign professors and teachers, your Committee noted that in fourteen of the sixteen existing income tax conventions, teachers from other countries coming temporarily to Canada are exempted from Canadian tax on their teaching incomes for up to two years and your Committee concluded that the matter should be a question of treaty negotiation before legislation. Beyond this, the evidence submitted to your Committee indicated that Canada receives substantial benefits from the views of

teachers and professors from other lands and that Canada would lose such benefits if these visitors were subjected to Canadian taxes that could well be higher than the taxes in the countries of the teachers' normal residence.

11. Your Committee was generally in agreement with the principles contained in paragraphes 2.53 through 2.59 of the White Paper which would permit a taxpayer to average his income and the tax thereon pursuant to a general averaging formula. Your Committee, however, concluded that the proposals of the White Paper were defective in that they were extremely complex, they made no adequate provision for a taxpayer whose income varies substantially from year to year, they made no adequate provision for a taxpayer whose income is drastically reduced in a year and they made no adequate provision to enable professional persons, such as doctors, dentists, lawyers and chartered accountants, who invest a great deal of their income in their education, to carry these costs forward and apply them against future income. On the whole, the suggestions of the White Paper appear to do little to help the Canadian taxpayer and instead increase the taxes payable on retirement and similar allowances. As an example, on the basis of information furnished to your Committee, the taxes that would be payable by an individual for a five-year period who had an average income of $12,000 in the four previous years and income of $18,000 in the current year, assuming 1970 tax rates and exemptions in all years, would be—

(1) Combined federal and provincial taxes payable under present Income Tax Act that does not recognize any form of income averaging for salaried, professional or business income	$ 15,096
(2) Combined taxes had the provisions of *Section 36(1)* of the present Income Tax Act applied to the extra $6,000 received in the current year	$ 13,959
(3) Combined taxes had the taxpayer been a farmer or fisherman entitled to use the five year income-averaging procedures provided by *Section 42* of the present Income Tax Act	$ 14,830
(4) Combined taxes under the income-averaging method proposed by the White Paper	$ 15,050

The great weight of the evidence submitted to the Committee has indicated that the use of the proposed formula will impose greatly increased taxes on retirement receipts as compared to the already high rate of tax imposed under the provisions of *Section 36(1)* of the Income Tax Act. It would therefore seem that the Government might consider rejecting the

proposed formula and instead recommending the establishment of two separate income-averaging formulae. The first would be for general use, while the second would apply only to lump sum retirement receipts. The first averaging formula for general use might well be based on the averaging formula now in force for farmers and fishermen under *Section 42* of the Income Tax Act. This particular formula appears to have worked reasonably well in practice and it is infinitely simpler than the formula proposed in the White Paper. The second averaging formula to apply to retirement receipts specified in the present *Section 36(1)* of the Income Tax Act might impose a tax equal to the lesser of

(i) a flat rate of tax such as 15 per cent to 20 per cent, or

(ii) the average rate of tax paid by the taxpayer for the previous five, or preferably ten, years.

V

THE CAPITAL GAINS TAX

> "*Important forms of income and benefits escape taxation. The government proposes to bring them into taxable income. In particular, a tax on capital gains is proposed.*" (paragraph 1.5 White Paper).

1. Your Committee is generally in favour of a capital gains tax although concern was expressed by some taxpayers as to whether Canada, as one of the great trading nations of the world with a limited population, has reached the point where disincentives to capital investments are appropriate. On balance, however, the search for equity leads to the acceptance of a form of capital gains tax.

2. Your Committee, however, is strongly opposed to any taxation without realization, to the total inclusion of capital gains on personal assets, principal residences, farms and orchards in the framework of such tax and the general inclusion of capital gains into ordinary income. Your Committee is, therefore, in favour of the imposition of a capital gains tax with defined exclusions, to be assessed when realized and, in the case of long term gains, not to exceed the lower of a flat rate of 25 per cent or one-half the marginal income tax rate of the taxpayer. The detailed conclusions of your Committee in this area will be found in Chapter 3 of this report.

3. With a unanimous voice all pertinent briefs presented to this Committee condemned the White Paper proposal that the only cost basis for capital gains tax should be the value of capital assets on valuation date, with minor exceptions to cover debt securities. Your Committee, therefore, recommends that when the historical cost of an asset is greater than the

value of such asset on valuation day, gain or loss should be computed with reference to such historical cost and not with reference to such value. In effect, your Committee wishes to ensure that under no circumstances will any capital gains tax be levied on any asset unless, in fact, a profit and real economic gain is realized with respect to such asset. In the absence of such an approach, an asset which on valuation date had a value lower than its cost could very well give rise to capital gain and tax thereon although, in fact, there had been no economic benefit or gain thereon whatsoever to the taxpayer. The Committee also recommends that in determining the value on valuation date, the valuation of a capital asset should take into consideration, where applicable, both the actual and potential earning power of such capital asset as well as all other relevant factors relating to such value. Finally your Committee further recommends that the law be so drafted as to ensure that there is no retroactive taxation of the goodwill element of assets existing at valuation date.

4. In almost every western country, and more particularly in the United States, the taxing systems have acknowledged the desirability of applying different tax procedures with respect to ordinary income and capital gains, and your Committee sees no reason why Canada should deliberately exclude itself from the international investing community by the procedures contemplated by the White Paper. Although the desirability of introducing a capital gains tax is accepted, your Committee emphasizes that the decision making process on investments must include the possibility of long term capital accretion and profit subject to a lower rate of tax than would apply to ordinary income and the taxation of such profit under a system where long term capital gains will not increase the rate of tax on ordinary income. Your Committee concluded in this respect that most individuals have a basic annual earned income or business income that is completely independent of any capital gains (or losses) they may receive. An individual taxpayer is subjected to graduated rates of income tax on his total income and the White Paper proposes that if such taxpayer is fortunate enough to realize a gain in a year, the amount of such gain must be added to his basic income with the inevitable result that a higher rate of tax will become payable on the combined sums of taxable income. Your Committee felt that the proposals of the White Paper in the foregoing respect would in the case of long term gains and losses seriously and adversely affect the Canadian community and supported your Committee's decision to reject the White Paper proposals on the taxing of all capital gains and losses as ordinary income. It is essential in the opinion of your Committee that the taxing system of Canada create a climate pursuant to which Canadians may be induced to save a portion of their earnings and to invest the same.

5. With respect to property held for personal use or enjoyment, your Committee concurred with the general principle contained in paragraphs 3.19 through 3.27 of the White Paper that such property should be subject to capital gains tax but it could not concur with the methods adopted by the White Paper for the imposition of such tax. In this respect your Committee concluded as follows:

(a) *Principal Residence*

Your Committee decided that in order to continue substantial incentives for the personal ownership by individuals of their homes, a $50,000 aggregate lifetime net gain should be excluded from capital gains tax where such gain is derived by an individual or his spouse from the sale of their principal residence. In addition, if and to the extent any net gain should exceed this limitation, your Committee recommends that a full and unrestricted roll-over permission be given if another principal residence is purchased within a one-year period;

(b) *Other Property*

Your Committee could not see any merit in attempting to distinguish between types of personal property that do or do not depreciate with use, since it concluded that the complexities of such a schedular differentiation would be enormous. On balance, therefore, your Committee concluded that all types of property held for personal use or enjoyment should be subject to capital gain or capital loss treatment, with defined limitations in the application thereof. The shortage of appraisers in Canada and the administrative complexities involved in the valuation of property of a personal nature was pointed out to your Committee by an authoritative expert in this field. The recommendation contained in this paragraph should reduce the problem to what is hoped to be manageable proportions. Your Committee therefore concurred with the principles contained in paragraphs 3.23 and 3.24 of the White Paper, but in order to avoid the complex book-keeping arising from the suggested low level of $500 your Committee recommends that in the case of tangible property held for personal use or enjoyment by individuals, no capital gain or loss be realized unless the proceeds of any individual sale or exchange exceed $5000;

(c) *Roll-Overs*

Your Committee felt strongly that extended roll-over provisions should be given to taxpayers for property held for personal

use or enjoyment in order to permit taxpayers to replace and upgrade their personal assets without being subjected to capital gains tax. Your Committee was impressed that in the generally accepted sense of the term, gain or loss on an item is not realized if the item in question is merely replaced with another item of the same kind and your Committee, therefore, wished to ensure that no individual would be subjected to capital gains tax (or entitled to a capital loss deduction) unless he actually disposed on a more or less permanent basis of the type of item in question. With reference particularly to works of art, your Committee felt that the upgrading of artistic collections was desirable in the interests of Canada and that there seemed no logical reason to impose a capital gains tax where a taxpayer sells or exchanges a work of art purely for the purpose of acquiring another and more expensive work of art of the same category. To impose a tax at such a time would, in the opinion of your Committee, restrict the growth of private collections which, in the normal course of events, will either find their way into museums upon the death of the owner, or alternatively, will be subjected to estate tax and succession duties on their appreciated value. In effect, your Committee acknowledges that certain types of personal property held for personal use or enjoyment can, in certain circumstances, give rise to substantial money gains and that in those circumstances those money gains should be taxed in the same way as other capital gains. This conclusion, however, should not be extended to cover those transactions where a sale or exchange of this type of property has been effected for the purpose of replacing the same with a more expensive asset of the same type. The law would, of course, require that where there has been only a partial use of any gain for replacement, the portion of the gain unused for replacement would be subject to the capital gains tax. This provision would also prevent the taxpayer from claiming an immediate loss in respect of a capital asset sold or exchanged and replaced by a less expensive asset. If in due course the replaced capital asset is not subject to a capital gains tax further taxes will be exigible in respect thereto through the application of the gift tax provisions or estate tax and succession duties. Your Committee, therefore, recommends that a full and unrestricted roll-over permission be given to the extent any property held for personal use or enjoyment is replaced within one year of its sale or exchange by a piece of property of a similar type.

6. In addition to the foregoing, your Committee does not agree with the philosophy of the White Paper which does not distinguish between long term and short term gains and losses and the Committee felt that it was more appropriate to give benefits to those taxpayers who constitute the patient, long term, solid investors as against those who make a "fast killing" turn over. Your Committee, therefore decided to recommend that short term gains and losses arising out of the sale or exchange of capital assets held for less than one year be treated as ordinary income, but that long term gains and losses be taxed at a reduced rate not to exceed the lower of 25 per cent of net capital gains or one half the marginal income tax rate of the taxpayer.

7. The Committee wishes to note that one of the most difficult areas which it had to consider was the question of integrating the capital gains tax with tax free intercorporate dividends which tax free dividends would be continued as a result of the elimination of the proposed integration system. On balance, your Committee finally came to the conclusion that a modified approach to that used in the United States should be adopted, so that intercorporate dividends deriving from capital distributions or which do not come into the undistributed income on hand of the recipient will reduce the cost basis of the recipient on the securities in question for future capital gains tax purposes.

8. Whatever final decision may be made on the types of assets subject to capital gains tax and the rate of tax applicable thereto, your Committee, on the basis of all its hearings, must unquestionably recommend the total elimination of all attempts to impose capital gains tax on unrealized gains and losses. This would involve the cancellation of the proposals for the five-year revaluation of shares of widely-held corporations (paragraph 3.33 White Paper), the deemed realization of capital gains when Canadian residents leave Canada (paragraph 3.40 White Paper) and the deemed realization of capital gains on the value of gifts (paragraph 3.41 White Paper). Your Committee feels that the elimination of these suggestions, together with a substantial extension of the roll-over provisions, would go a long way to making the capital gains tax more acceptable in Canada and the effects thereof more in accord with the economic and social consensus of what is real gain or loss. In particular your Committee wishes to note the many representations to it, with which it is in accord, stating that the administrative effect of properly enforcing the deemed realization of gain when Canadians leave Canada would place an intolerable restraint on the liberties of Canadian individuals. On the question of the five-year revaluation of shares the opposition thereto in the briefs presented to this Committe was over-

whelming. Amongst the many reasons presented to the Committee against the proposed revaluation system were the following:

(a) The proposal to tax unrealized gains on the shares of widely-held Canadian corporations proceeds on the assumption that the holdings of such shares are readily marketable which, particularly in the case of large controlling blocks, is not the case;

(b) In a substantial number of instances holders of such shares, due to contractual or other legal commitments, would be unable to market their shares while, at the same time, being subjected to a tax on the deemed gain thereon;

(c) In the case of foreign holders of control blocks of such shares, the countries of residence of such holders would not give tax credits for the proposed Canadian tax so that any ultimate sale taxed in the country of such residence would give rise to double taxation;

(d) The proposed tax treats most unfairly those subsidiaries of foreign corporations which, pursuant to Government desires, offered part of their shares to the public and thereby deprived themselves of the otherwise exempt status of a closely-held Canadian corporation under the White Paper proposals.

VI

THE TAX LOOPHOLES

"*Tax can be avoided under the present law by clever devices. The reform must close loopholes now available to those with the wealth and expert advice to use them.*" (paragraph 1.5 White Paper).

1. Your Committee is in complete agreement with the objective to eliminate from our tax system any devices which have the effect of improperly reducing taxes where same are appropriately due and exigible. Your Committee is in this sense in agreement with the White Paper in being in favour of virtue and against sin. The Committee, however, holds the view that the present tax law, with perhaps some amendments, properly administered, is sufficiently broad and flexible to prevent the vast majority of such devices and loopholes. Indeed amendments to the Income Tax Act in recent years to close such loopholes have been well formulated and applied. A continuance of this procedure by way of further amendments of the same nature to the Income Tax Act, wherever the necessity is established, should be sufficient to reach devices and loopholes still used.

2. Evidence was presented to your Committee that the original reasons for the enactment of Subpart F of the United States Internal Revenue Code (which presumably is the United States law referred to in paragraph 6.21 White Paper) were as much for balance of payments problems as for tax haven abuses. In any event, whatever these purposes may have been, the Committee has concluded from the evidence that Subpart F has not worked well in the United States and that it would be a most regrettable decision if Canada were to enact anything analogous thereto. Your Committee noted in this respect with considerable interest the following extracts relating to this subject from an address by The Honourable Edward S. Cohen, Assistant Secretary of the Treasury for Tax Policy, dated November 19, 1969:

> First, present law is far too complex. It is too complex for taxpayers and too complex for efficient administration. It shows all of the marks of the series of compromises that were involved in its development from 1913 to 1962. While the inherent complexity of business, especially international business, limits what we can do to achieve simplicity, it seems to me that it is not necessary to seek the precision that our present system appears to be striving for when the cost of that search is such a high degree of complexity.
>
> The cost of complexity both to taxpayers and the government in this area is real, stemming largely from the necessity to assign large numbers of very intelligent people in an effort to make the present mechanism function. I think we should strive to shift some of this talented manpower both inside and outside of government away from such intricacies as subpart F income, the deemed-paid foreign tax credit, and section 367 rulings to work creatively on such critical needs as low income housing, transportation, legal services for the poor, and other frontiers of the law.

On the basis of the evidence presented to it, your Committee concluded with respect to the United States law that:

(a) the whole system of taxation is too complex, both for taxpayers and for efficient administration;

(b) there exists considerable doubt whether this complex legislation has resulted in the collection of the anticipated amounts of tax;

(c) the law has resulted in a considerable loss of interest on the part of the United States manufacturers in developing export sales, with the consequent loss of foreign exchange to assist the United States balance of payments problems; and

(d) the tax system has resulted in a curtailment of direct investment by United States corporations in other countries, again with a consequent long term adverse effect on foreign exchange.

Further comments on this subject matter will be found in Chapter 6 of this Report.

3. Your Committee finds itself puzzled by the implication running through the White Paper that there are vast current evasions of income tax through the use of foreign "loopholes" and other tax avoidance devices, par-

ticulary when table 16 of the White Paper estimates a continuing recovery of $10,000,000 a year by the elimination of tax haven abuses. Your Committee repeats that it is in favour of shutting off improper tax avoidance to the extent such tax avoidance exists, but it feels that the subject matter and the suggested corrections have been given far too much emphasis in the White Paper, and certainly do not require the highly complex and probably unworkable suggestions for reform conceived by the White Paper.

4. Your Committee is convinced that a total withdrawal of permission to deduct entertainment, convention and similar expenses would be wrong (paragraphs 5.9 and 5.10 White Paper). In effect, the White Paper has opted to close out these expenses because in a minority of cases it has concluded that the administrative branches of the Department of National Revenue are incapable of properly enforcing the existing law. Your Committee cannot agree with a proposal which would penalize taxpayers due to the problems of income tax administration, particularly when, conversely, there seems to be no lack of desire to accept complexity where the results are the imposition of taxes. Your Committee therefore decided on the basis of the evidence submitted to it that business promotion and entertainment expenses are essential expenses of doing business in Canada and must be recognized as such. While your Committee firmly supports an increase of administrative control of improper entertainment and similar expenses, it notes from a press release dated December 29, 1965 of the Minister of National Revenue and related documents released by the Taxation Division at that time, that the Taxation Division, after a thorough investigation, came to the conclusion that there was little abuse of the use of expense accounts and that the country was not losing nearly as much tax as had been originally anticipated on so-called "expense account living" (see the budget of June 13, 1963). In this respect your Committee noted the following comments in the report from the Operations and Development Section of the Department of National Revenue to the Director of the Assessments Branch dated July 16, 1965—

> Apart from the personal use of automobiles the Expense Account Living Project did not reveal any substantial areas of avoidance among the over $25,000 income taxpayers. We were aware of the car problem and have been attempting to cope with it.
>
> Club dues is a problem that apparently should receive the attention of Technical and Review Sections to ensure equivalent treatment across the country.
>
> No major loss of tax was revealed in one area that we were primarily concerned about, that is the use of large assets such as yachts and hunting lodges and in another,—wives' travel,—the avoidance was relatively modest.

Your Committee also noted the following consequent comments in a memorandum from the Director of the Assessments Branch to the Deputy Minister of National Revenue dated September 21, 1965—

On the basis of these results, our Operations Research Unit has estimated the total annual tax gap, for the 11,650 taxpayers covered by the project, to be about $2½ million. This is probably an understatement because the districts generally did not adjust, or report for statistical purposes, incorrect claims which in their opinion were picayune. In any event, it is apparent that the tax gap in this stratum of taxpayers resulting from Expense Account Living is relatively insignificant, representing less than 2% of the approximately $143 million paid in taxes.

No evidence was presented to the Committee which would indicate that the situation with respect to expense account living has, in any way, become more flagrant since the year 1965.

5. Your Committee is basically in agreement with the general proposition of paragraph 5.17 of the White Paper and would even extend it to property other than real estate. It believes, however, that there is a basic fault in the approach of paragraph 5.17 of the White Paper in that it would apply equally to business and investment assets and your Committee, therefore, would strongly recommend that losses through capital cost allowance, interest and property taxes referred to in paragraph 5.17 of the White Paper be only restricted in the hands of those taxpayers who are not primarily engaged in a business using the assets in question. It seemed to your Committee grossly unfair to specifically penalize operating real estate companies which result would follow if paragraph 5.17 of the White Paper resulted in legislation without amendment. The Committee queries the rationale which seems to assimilate income producing depreciable property to "speculative property."

6. A substantial number of briefs were presented to your Committee dealing with the question of commercial and non-commercial trusts of varying kinds and sizes. The general consensus of your Committee was that there are some loopholes in the trust area which should be closed. On balance, therefore, your Committee agrees substantially with the suggestions of paragraph 5.56 of the White Paper on large public trusts, but disagrees with the conclusions of paragraph 5.57 of the White Paper on other kinds of trusts.

VII

WAGE EARNER EXPENSES

> *"Wage earners are unable to deduct many legitimate expenses from taxable income. New deductions would be introduced to benefit employees and working mothers".* (paragraphe 1.5 White Paper)

1. Your Committee has already indicated its concurrence in the suggestions of the White Paper in this area. It is particularly anxious to see

that wage earners be entitled to deduct legitimate expenses from their taxable income and that the new deductions be introduced to benefit employees and working mothers.

VIII

THE INTEGRATION SYSTEM

> *"Corporations are taxed in ways that are open to abuse and that fail to recognize their differing relationships with shareholders. The government proposes changes under a new system that would be fairer to small shareholders and that would stimulate Canadian ownership of Canadian business."* (paragraph 1.5 White Paper)

1. No parts of the White Paper have elicited such universal condemnation as those that the White Paper declares would be fairer to small shareholders and would stimulate Canadian ownership of Canadian businesses. Practically every taxpayer heard before your Committee strongly objected to the integration system, and even the limited number who were in favour of such proposals stressed that substantial modifications would be required in the proposed system in order to make it acceptable.

2. The integration system would replace the present 20 per cent individual dividend tax credit and tax-free intercorporate dividends by a gross-up of corporate tax and credit to shareholders. The proposals complicate matters further by staledating tax credits and by drawing a distinction, artificial in the opinion of your Committee, between widely-held corporations and closely-held corporations. Under the White Paper all corporations would be required to maintain complicated creditable tax accounts, detailed not only as to amount but also as to age.

3. The main thrust of these proposals would introduce into Canada a system where corporations through their boards of directors would be subject to the pressure of shareholders for increased distribution of dividends so that creditable tax would not be staledated. In the process corporate management and directors would not be in a position to determine objectively the long range needs of the corporation that they administer. In the opinion of many witnesses, conflicts of interest between corporation management (who might wish to retain funds for expansion of business), foreign shareholders (who are not affected by creditable tax), and Canadian shareholders (who would not want creditable taxes to be staledated) would become common and severe. The boards of directors of many companies might be forced to make decisions respecting dividends and other matters on grounds that would be beneficial to only some of their shareholders. In addition, your

Committee noted that a company might not have surplus, computed in accordance with generally accepted accounting principles, from which it could pay out dividends, even though it might have had taxable income and paid tax in the preceding two and one-half years.

4. Your Committee was not impressed with the suggestions of the White Paper that the use of stock dividends was an easy alternative to cash dividends (paragraphs 4.26 and 4.27 White Paper). In the case of many companies heard before the Committee it became apparent that due to restrictive covenants in trust deeds, problems with security commissions and other contractual arrangements and legal problems, a very substantial number of corporate taxpayers would not be in a position to avail themselves of the stock dividend alternative suggested by the White Paper. The Committee noted in this respect evidence given to it:

(a) that the payment of a stock dividend from a widely-held Canadian corporation would require a cash tax outlay for a shareholder who is over the $33\frac{1}{3}$ per cent tax bracket,

(b) that a cash payment would be required for stock dividends paid to foreign shareholders with resulting complexities as to who would be responsible for the remission of that tax,

(c) that there would be a major cost differential to the declaring company between cash and stock dividends, and

(d) that foreign shareholders might very well be presented with serious tax problems in their country of residence if they were in receipt of stock dividends from Canadian companies.

5. Furthermore, your Committee found it impossible to overlook the varying needs of different corporations having regard to the nature of their activities. For example, those engaged in the extractive and natural resource industries obviously have problems differing from those engaged merely in the distribution of manufactured products at the retail level. Your Committee feels the integration system, because of its inflexibility, would badly serve the varying needs of diverse corporate activities, and would tend to discourage rather than encourage Canadian investment in the natural resource companies, in growth companies, in companies carrying on international operations and generally in the whole Canadian corporate complex. A considerable body of evidence was presented to your Committee showing that the various tax incentives and allowances at the corporate level (such as depreciation, depletion, foreign tax credits, tax-free dividends from foreign subsidiaries, etc.) would be substantially offset by the increased tax on the shareholders of such companies by virtue of the fact that the creditable tax

of the companies would be lowered by the incentives themselves. Your Committee concluded that the various incentives on the one hand and the tax credit system on the other hand seemed to be working against each other in a large number of such instances and this conclusion was one of the many reasons which led it to decide that the whole integration system was unacceptable.

6. Without attempting to enumerate all the specific objections to the integration system which led the Committee to reject it, your Committee considers it desirable to note some of the more important of these objections which have not heretofore been fully set forth, and with which objections your Committee concurs:

(a) Great administrative difficulties will be encountered in determining the creditable tax on dividends and even if the system can be made workable the result will be a loss of revenue to Canada estimated at $140,000,000 in the first year and $250,000,000 in the fifth year of the system (Table 15, item 13 White Paper);

(b) The public utilities will be most unfairly treated (paragraphs 4.63 to 4.65 White Paper) on the basis of sophistic reasoning;

(c) Canadian investor tendencies will be distorted by favouring investment in mature, nonexpansionist, creditable tax corporations as against growth, risk-taking corporations;

(d) Conversely, non-resident investment tendencies will be distorted by favouring foreign investment in growth corporations as against creditable tax corporations;

(e) The application of those parts of the integration system which apply to non-residents and the negotiation of new tax treaties to give effect thereto will be much more difficult than envisaged by the White Paper;

(f) The increase in cash dividends may well be consumed by many shareholders rather than being saved by them and used for further investment;

(g) The integration system will result in the reduction, at the shareholder level, of incentives which had been granted by the Government to corporations, and, in combination with the $2\frac{1}{2}$ year dividend pay-out rule, will ultimately gravely reduce the power of the Government to utilize the tax system effectively to stimulate and control the economy;

(h) Because of the issuance of revised assessments and tax disputes between the taxpayer and the revenue authorities, creditable tax

> may in many instances be incapable of being determined within the staledating period of two and a half years contemplated by the White Paper. (The Committee has taken cognizance of the technical paper issued by the Minister of Finance on March 19, 1970, where at pages 11 and 12 an attempt is made to explain the handling of additional tax demanded by assessment and its staledating. Your Committee is not in a position to conclude whether or not this procedure would be a complete answer to the problem, but it could not help but be impressed with the fact that some twenty typewritten pages were required at this early stage to explain (basically by examples and not by legislative wording) certain aspects of the proposed taxation of corporations and their shareholders, which proposals at least in part are supposed to streamline an existing system which, in the opinion of your Committee, is working extremely well.)

In concluding that the integration system should be rejected, your Committee wishes to note that it was influenced by the unhappy experience of the United Kingdom during the time that a form of integration system was provided for under its law. Excerpts from the statements of various public officials in the United Kingdom which were presented to this Committee were a factor in the considerations of this Committee as to the undesirability generally of the integration system. For example, the budget statement of the United Kingdom Chancellor of the Exchequer dated April 6, 1965 said in part:

> Our present method of taxing corporate bodies goes back to the days before the joint stock company, as we know it, existed, when the few companies that did exist were thought of as being in the nature of large partnerships. At that stage, income tax was virtually a flat-rate tax: it applied to the income of companies and individuals alike; and when a company distributed its income to its shareholders in the form of a dividend, a second lot of tax was not exacted. Since those days, there have been extensive changes both in the tax system and in the status and position of companies.
>
> First, the personal income tax has become a graduated tax, differentiated according to the circumstances of each taxpayer, and made progressive by reduced rate relief at the lower end of the scale, and surtax at the upper end. Secondly, company taxation has been altered by the introduction of profits tax, which is imposed on the whole profits of a company, whether or not distributed, and is not repayable to shareholders. *These changes have made obsolete the idea that companies and individuals should be treated for tax in the same way. By separating formally the two taxes, namely, the tax on corporations and the tax on individuals, we shall be bringing the tax system of the United Kingdom into line with reality and adopting what has become the general practice throughout the world. (italics inserted)*

7. In a federal country such as Canada there are sufficient problems in evolving a harmonious tax system between the federal government and the provinces without introducing further stresses that will make such

harmonization very difficult and probably impossible. The adverse reaction of some of the Canadian provinces to the proposed integration system will be hereinafter dealt with under heading XII "Coordination with the Provinces".

8. The White Paper (paragraph 4.14) claims that the present dividend tax credit of 20 per cent redounds to the advantage of those in the higher tax brackets. Your Committee concurs to some extent with this view, and to overcome this difficulty, revised dividend tax credit rates and other procedures are suggested in Chapter 4 of this report.

9. The proposals in the White Paper which relate to integration include:

(a) two classes of corporations described as closely-held corporations and widely-held corporations;

(b) the removal of the low rate of tax on the first $35,000. of business profits and the application of the general corporate tax rate thereto;

(c) the revaluation of shares of widely-held Canadian corporations every five years and a deemed realization of gain whether or not the owner sells the shares; and

(d) the treatment of capital gains as income.

The representations contained in the briefs and other material filed with your Committee and the evidence at the oral hearings showed very substantial opposition to all of the above, and this erosion makes impracticable the form of integration proposed in the White Paper. This aspect confirms the views of your Committee against implementation of the proposal for integration, since all that would be left of that proposal would be "bits and pieces" which in no wise could make up a viable or feasible plan.

10. On the subject of mutual funds, your Committee concluded that the present "conduit pipe" treatment of mutual funds should be continued by one method or another, including possibly the right to permit mutual funds to elect to be treated as partnerships. This approach is pointed up by the necessity to continue the investment of the funds of pension and retirement plans in mutual funds, which investment the Canadian Mutual Funds Association estimates at approximately $190,000,000. The withdrawal of such an amount from the mutual fund market would undoubtedly have a serious effect, not only on the mutual funds themselves, but on the market as a whole, and such withdrawal of investment would undoubtedly take place if pension and retirement plans were to be subjected to a more onerous rate of tax by

investment in mutual funds than if they had made a direct investment in shares similar to those held by such mutual funds.

11. With respect to privately owned public utilities, the Committee suggests that this is an area which requires immediate clarification and rectification since a very substantial market bias already exists against utility shares as a result of the White Paper proposals. It would appear that the only types of shareholders of utilities who are not adversely affected by the White Paper proposals are foreign shareholders and your Committee was convinced that the continuation of the White Paper proposals would have a considerable impetus in causing foreign take-overs of Canadian privately owned public utilities.

12. Your Committee, is, therefore, of the view that the proposed integration system should be entirely abandoned as being impracticable and creative of unacceptable distortions. It is the view of the Committee that the present dividend tax credit system be retained, but on a modified basis in order to meet what is regarded as certain inequities in practice under the present system of dividend tax credits. Beyond this, your Committee is of the view that a simplified procedure should be created for the distribution of corporate surpluses by prepayment of tax.

IX

THE MINERAL INDUSTRIES

> *"The mineral industries enjoy special tax benefits that have existed for many years but htat are unnecessarily costly and inefficient. Assistance to mineral exploration and development must do its intended job in a more direct way that is less costly in terms of revenue."* (paragraph 1.5 White Paper)

1. The proposals in the White Paper retain the concept that the mineral and extractive industries are to continue to receive special tax considerations because of the special nature and character of their operations. The White Paper recognizes that "more than the usual industrial risks are involved in the search for and development of mines and oil and gas deposits and that the scale of these risks is quite uncertain in most cases". The White Paper suggests, however, that the tax benefits heretofore granted to the mineral industries by way of the three year tax exemption for new mines and depletion allowances are too generous. The issue, therefore, is to determine the extent of the benefits or inducements or incentives that must be granted to those engaged in these industries.

2. Special rules or incentives have been provided up to now to assist in the exploration and development of mineral resources by way of tax exemption during the first three years of commercial operation of a mine and by way of allowances called percentage depletion amounting to 33⅓% of net production profits that may be deducted from profits before determination of taxable income. These incentives have attracted the required equity capital notwithstanding the great risks involved and compensate for the risks and uncertainties of such operations. About 60% of Canada's mineral output is exported to world markets and must be competitive with the production of other countries to maintain this position. The existing incentives in Canada have attracted this risk capital on terms that enable Canadian production to be and remain competitive.

3. Your Committee has listened to the representations that have been made by most of the leading companies engaged in the various natural resource industries. Most of these companies, who cumulatively are responsible for a substantial portion of Canada's export trade and activities in the international market, have taken the position that the present incentives are absolutely essential for the continuance of their operations and for the realization of their expansion programs. All have pointed out that the extractive industries carry on operations on an internationally competitive basis and that any reduction in the incentives heretofore granted would seriously affect their future. They point out their importance in terms of Canada's balance of payments and they emphasize that the development of the Canadian hinterland, in some instances completely unoccupied and virgin territory, would not have taken place without these incentives and will not take place to the same degree in the future if these incentives are seriously reduced. These companies have in many instances pointed out further that it is not only the revision in the incentives but also the introduction of the proposed integration system which would be extremely damaging to them since the tax saving incentives on the one side would be counterbalanced by low tax credits to shareholders.

4. This segment of the White Paper proposals has given your Committee some troubled moments. It appreciates the necessity of maintaining the mineral resources industry on a competitive international basis, and it realizes the necessity of continuing an international investment climate which will enable Canadian based international mineral resource companies to extend their activities in both Canada and foreign countries.

5. One of the main concerns of your Committee is the fact that very considerable long-term developments and financing have been effected in these industries on the basis of the tax incentives presently in force. Reference has already been made in this report to the undesirability of the retroactive legislation features of the White Paper system, and this is particularly evident in the subject matter now being discussed.

MINING INDUSTRY

6. It has been estimated that the net foreign earnings of the mining industry amount to some $1,500 million per year. The export and the competitive position of these industries in international trade continue to be of major importance in the maintenance of a favourable balance of payments (See Fourth Annual Review of September, 1967, published by the Economic Council of Canada, Pages 231-2).

7. The mining industry's contribution to better regional economic balance has benefitted virtually all sections of Canada. This development has been most significant in the north where mining has pioneered the development of many areas. Some wilderness areas have been converted into well-organized modern communities with substantial population and modern facilities by the efforts of the mining exploration and development.

8. Notwithstanding such a remarkable record of achievement the White Paper proposes that these special rules and the incentives under which risk capital was made available with the resulting tremendous development of the Canadian mineral industry, "should be revised substantially to ensure that really profitable projects bear a fair share of the burden of taxation". Yet the White Paper, while proposing to discontinue the tax exempt period of three years agrees in para. 5.32 that the exemption granted to mining companies in respect of Canadian corporate tax for three years provides "an incentive to corporations to commit the large amounts of money necessary to develop a mine and recognizes that the commitment must be made at a time when the extent and quality of the ore body cannot be clearly ascertained".

9. The first proposal of the White Paper (paragraph 5.31) is to phase out or withdraw the tax exemption of three years presently enjoyed by mines from commencement of commercial production. Your Committee is firmly of the opinion that this tax exemption for Canadian mines must be continued even if modified as to the extent of the exemption. Such tax exemption is part of the pattern of financing mining exploration and development. Without this feature, the attractiveness to risk capital suppliers would be greatly lessened. No fine measurement can be made as to how much

reward is needed to secure such capital but obviously the reward must be greater than for usual mature investment.

10. The Minister of Finance, The Honourable Walter Harris, in his Budget Address in 1955 in referring to these special incentive provisions said: "I believe these special tax provisions (incentives) have clearly established their value in promoting expansion (in the oil and gas and mining industries) and I now propose to make them a permanent part of our law."

11. The defect in the White Paper's approach to the financing of the development of mineral deposits is that it fails to take into account the essential difference between the two types of investors and the demand of the risk investor for rewards that are commensurate with the greater risks in this area of mining development. The proposals to permit new mines under certain conditions to write off 100% of the cost of mining machinery and buildings and to allow deduction of the cost of acquisition of mineral rights as part of the costs of exploration and development are in the opinion of your Committee completely inadequate as a reward to attract the financing to begin a program of exploration and development of mineral resources.

12. In the opinion of your Committee, the proposal to allow to new mines a fast write off of costs of fixed assets in place of the slower pace by way of capital cost allowances is not and will not be regarded as an adequate reward for taking on the greater than normal risks inherent in a program of exploration and development of mineral resources. More is required than the mere return of the capital for the risk capital supplier to venture into this area of financing. What the White Paper proposes by way of incentives produces no return unless the venture is successful. It is the Committee's view that the odds under these proposals are not attractive enough to interest the risk capital supplier in a field where failures greatly outnumber successes.

13. In addition, the White Paper proposes to substitute earned depletion for the existing percentage depletion. This is a radical change in the special rules. Operators of mineral resource industries may presently under the special rules reduce their taxable income by claiming a depletition allowance amounting to 33⅓% of their net production profits derived from the operation of mineral resources. This is to be replaced with a form of depletion that must be earned in relation to exploration and development expenditures as defined in the White Paper and is limited to a maximum of 33⅓% of net production profits. Such formula for earned depletion is related more to new mines than existing mines. This proposal of earned depletion will fall unevenly across the mineral resource industry. Some may receive full benefit while others will receive in varying degrees less benefit. In the view of your Committee, this potential imbalance must be corrected.

14. The proposal in the White Paper is that after a transition period "depletion allowances in respect of mineral rights held by a taxpayer will have to be earned". (White Paper paragraph 5.40). The transition period proposed is that for the first five years the new system is in operation depletion allowance in respect of production profits from properties now owned may be taken as in the past without the taxpayer having to earn them. The Committee will recommend an extention of this transition period (see chapter 5, paragraph 14 (c) of this report).

15. The formula proposed in the White Paper for "earned" depletion is that for every $3.00 of eligible expenditures made after the White Paper is published a taxpayer would earn the right to $1.00 of depletion allowance. The present maximum on such depletion allowance would continue, namely, one third of net production profits. Expenditures to earn such depletion allowance under this formula must be in respect of exploration for or development of mineral deposits in Canada or certain mining machinery and buildings. The Committee has been advised that under this sytem of earned depletion some mineral resource companies would face an effective tax rate of 55% to 60%.

16. It is perfectly obvious that under the existing incentives now proposed to be radically changed, the mineral resource industry in Canada made tremendous advances.

17. Subject to the foregoing views, your Committee approves in principle a modest revision of the present tax incentive legislation that will modify the three year tax exemption for mines, but will still retain the necessary incentives to bring about the maximization of the development of Canada's resources. The details with respect to these proposed revisions will be found in Chapter 5 of this report. It is significant that in the briefs published by the various provinces in recent months, the two items in the White Paper that were most strenuously objected to were integration and the proposed treatment of mining and oil and gas industries. These industries are so important to the economy of the respective provinces in their continued development and expansion and so necessary for regional development that the provinces have expressed great concern as to the adverse consequences of the White Paper proposals relating to these industries and their effect on the economy of the provinces.

OIL AND GAS INDUSTRY

18. At present oil and gas companies are entitled to percentage de- from oil or gas wells. The White Paper proposes to transform this percentage depletion into an incentive system designed to induce taxpayers to undertake

more exploration and development than they otherwise would (White Paper para. 5.37). The White Paper proposes in para. 5.40, that from the day on which the White Paper was published depletion allowances would have to be earned. The existing maximums would continue to apply—that is that such earned depletion allowance could generally be no more than one third of production profits, and in the same way as for the mining industry, the formula proposed is that for every $3.00 of eligible expenditures made after the White Paper is published a taxpayer would earn the right to $1.00 of depletion allowance. If the taxpayer's profits in the year were not sufficient to permit him to deduct the amount earned he would carry the undeducted amount over to subsequent years.

19. In the future larger amounts of capital will be needed for exploration in the capital-intensive industry of oil and gas as it advances farther north and off-shore. The existence of a definite depletion allowance provides a source of money where the supplier of risk capital may have an opportunity to realize his reward for assuming higher risks.

20. The change to earned depletion for the oil and gas industry proposed under the White Paper would, by substantially increasing its costs, place the oil and gas industry in Canada in a less competitive position in the export market in the United States. Presently the depletion allowances in the United States are calculated at 22 per cent of gross production. The effect of the present percentage depletion rate in Canada is not as generous. Nevertheless the exporting Canadian oil and gas companies have been able to compete in the U.S. market although at the cost of some reduction in their margin of profit.

21. In two areas, namely, a) operating in the competitive U.S. market and, therefore, in the world market, for Canada's share of such markets, and b) competing in the risk capital market for capital for further exploration and development, the change to earned depletion will seriously affect the oil and gas industry in Canada. It will make the market less profitable for the sale of Canadian oil and gas and will reduce the ability to procure risk capital and possibly increase the already higher cost of such capital if available.

22. To the extent the oil and gas companies in Canada have financed to this moment their capital costs for exploration and development the continued existence of the present depletion allowance has been an important economic inducement in producing and selling the end product competitively.

23. In terms of its contribution to the Canadian economy in the comparatively short period in which the petroleum industry in Canada has been actively engaged in exploration and production on a significant scale, the record of achievement of the industry has been outstanding. In terms of return on capital investment, the experience of the industry has been dis-

appointing when considered in relation to the high risks involved and in comparison with industry experience in other major producing areas of the world.

24. There have been long periods when there has been a dearth of major discoveries inevitably leading to a flagging of interest and a decline in the level of exploration activity which has only been revived from time to time by some important discovery, which has renewed hope for the future. The industry in Canada is now on the threshold of a new stage in its development with a definite shift in emphasis in exploration from the older well-established areas in Alberta, Saskatchewan and British Columbia, to what are referred to as the "frontier areas"—the Mackenzie River delta area and the Arctic coastal plain, the Arctic islands and Hudson's Bay, and offshore Eastern Canada. Inevitably, associated with the hope of a better return on investment, however, is a much higher degree of risk in these frontier areas. The capital investment required for exploration and development in these areas will greatly exceed the cost of exploration and development in the older well-established areas. The ability of the industry to attract the capital required for exploration and development in these frontier areas will depend to a considerable extent on the prospect of the enhanced return which would be provided by an adequate depletion allowance.

25. The oil and gas industry on the basis of the history of operation in Canada has not reached a position where it can be concluded that there are such excess earnings that it can operate successfully with a less generous incentive. The fact that many such companies have not as yet been able to take advantage of the present depletion allowances points up the fact that net production profits after providing for exploration and development costs are nominal.

26. Eligible expenditures for purposes of earning depletion under the White Paper proposals are *section 83A* expenditures excluding the cost of acquiring mineral rights. There expenditures are in respect of exploration and development. Many expenditures not included in these 83A costs so as to be entitled to 100 per cent write off are equally exploration and development expenses. Thus replacement of capital assets in expansion of refinery facilities and well and associated equipment are necessary costs in developing oil and gas reserves. Likewise expansion of refining facilities and replacement of equipment and buildings are necessary if continued operation is to be maintained. Gas plant facilities should be considered an integral part of any development program. Gas at the wellhead usually is not a saleable product and must be separated from certain components to bring the gas up to the standard set by the Gas Conservation Board. In addition government orders (provincial) require the conservation of gas that is produced with oil.

27. While the treatment of these facilities as depreciable assets subject to capital cost allowance may be justified rather than broadening the scope of exploration and development expenses under Section 83A of the Income Tax Act, your Committee is of the opinion that the basic character of these expenditures is part of any development program intended to lead to production in commercial form of oil and gas. Accordingly, your Committee is of the view that eligible expenditures to earn depletion should include all such expenditures for purposes of the determination of earned depletion.

X

TAXING INTERNATIONAL INCOME

1. The conclusions of your Committee in this area are dealt with in Chapter 6 of this report.

2. Many objections raised before your Committee with respect to the proposed treatment of international income were based on the assumption of the adoption of the proposed integration system. If the recommendations of this Committee to eliminate the integration system are approved, virtually all of these objections will be eliminated.

3. The bulk of the remaining objections dealt with taxing capital gains of foreigners not earned through a permanent establishment in Canada and the adverse treatment of non-treaty countries as against treaty countries for withholding tax rates and tax credits. Your Committee cannot in either of these areas agree with the recommendations of the White Paper. To attempt to collect capital gains tax from non-residents who have no connection to this country other than ownership of investments seems to your Committee an exercise in frustration which runs counter to the practice of virtually all developed countries and which will make the negotiation of new income tax conventions most difficult. Your Committee has also been convinced that these tax treaties are and will continue to be mainly with developed countries so that the effect of the White Paper will be to hurt mainly the underdeveloped areas of the world at the same time as Canada is inducing private capital to go to these countries. Your Committee was also convinced on the basis of the evidence submitted to it that under the White Paper proposals Canadian companies investing abroad in non-treaty countries would be at competitive disadvantage with other foreign investors and that tax incentives offered by developing countries, such as tax holidays and low rates, might very well be more than offset by the Canadian tax payable on dividends from non-treaty countries. In all your Committee sees

little that is good and much that is dangerous in the proposals of the White Paper on these subjects.

4. The provisions of paragraph 6.15 of the White Paper propose to restrict *Section 28 (1) (d)* of the present Income Tax Act to exempt only dividends from those countries with which Canada has a tax treaty. Your Committee is of the view that the proposed procedure may be discriminatory against many Canadian corporations in receipt of dividends from foreign controlled corporations. The White Paper recommends the immediate revision of the present Canadian tax laws and then expresses the hope that amendment to existing treaties and the creation of new treaties will harmonize with the proposed tax changes. This procedure is an unfortunate example of putting the cart before the horse. The change in the domestic law should not be effected until treaties beneficial to such Canadian corporations are negotiated. If in fact the Government is unable to negotiate treaties or any satisfactory number of treaties on the basis of the present domestic law then the policy decision should be reexamined as to whether any change in the domestic law should be made. Your Committee, therefore, recommends against the implementation of the proposal in 6.15 and favours the retention of the present *Section 28 (1) (d)* of the Income Tax Act.

5. In summary, your Committee has concluded that the proposed treatment of foreign investors and foreign income as indicated in the White Paper has not been followed by any other country, and that such proposed treatment is inconsistent with present income tax conventions and current international tax practice. The proposals in the White Paper in the Committee's opinion discriminate against the expansion abroad of many Canadian enterprises and will seriously tend to curtail them.

XI

MISCELLANEOUS REVISIONS

1. There are some matters that have not been dealt with directly in the White Paper which have been brought to the attention of your Committee and which, in its opinion, require an expression of its views.

2. Your Committee is of the opinion that the tax law should provide the necessary machinery which would enable the Department of National Revenue to give tax rulings on stipulated facts for the guidance of taxpayers, which rulings would be binding on the Department provided the stipulated facts were not materially varied. Taxpayers and their advisers today are not in a position to obtain the necessary assent, or dissent, as the case may be, for proposed actions, which particularly in cases involving corporate reorganiza-

tions, long term financial undertakings and the like impose an unwarranted burden on taxpayers. Your Committee, therefore, feels it is essential that legislation be enacted to provide for the easy issuance of such rulings, as these will smooth the operations of the taxation system, reduce uncertainty to a considerable degree and substantially reduce expensive and lengthy litigation between taxpayers and the Crown. The Committee recommends that the requisite legislation be phrased so as to induce and not inhibit the issuance by the Department of National Revenue of rulings, with an obligation on the Department to issue a ruling within a stated period of time after any proper application therefor. Your Committee notes that the National Revenue Department has just issued a statement that it will in the future issue binding rulings under certain circumstances, which procedure your Committee, of course, commends. The Committee however is still of the view that the ruling procedure should be specially provided for by legislation.

3. Some representations were made to your Committee in support of the view that in order to induce loan as against equity investment in Canadian enterprises, withholding tax should not be exigible on interest paid by Canadian debtors to non-residents. It was argued that large sums of money would become available from foreign sources if such withholding taxes were eliminated, as in many instances the non-resident creditors are, in their own country, either not subject to tax or are not able to obtain tax credits for Canadian withholding taxes. Assuming that Government policy will be such as to desire loan moneys coming into Canada from foreign sources, your Committee suggests that the Government consider the question of whether the elimination of such withholding tax on interest is desirable where there are loans from arms-length foreign lenders.

XII

COORDINATION WITH THE PROVINCES

1. Your Committee heartily concurs with the statements in the White Paper that it is necessary to obtain the consent of the provinces to the over-all revision of Canada's tax structure. As stated in paragraph 1.15 White Paper:

> A final important goal for tax reform in Canada must be its appeal to provincial governments and legislatures as a system they too can use. In our federal structure of government, we are striving for harmony in federal and provincial tax policies and practices. Much has been accomplished in this respect in the past generation. The proposals in this paper have been designed to permit that progress to continue.

Paragraph 7.1 White Paper states further:

> A major concern of the government in the program of tax reform will be to maintain the high degree of coordination which has been achieved in recent decades between the federal and provincial income tax systems.

2. Thus far the Provinces of Quebec and Ontario as well as other Provinces have expressed the view that the proposed integration system and capital gains tax of the White Paper involve a radical and complicated restructuring of the tax system, and these provinces have expressed their disagreement with the introduction of such a system. These views so recently expressed by these provinces should give cause for concern and, in the opinion of your Committee, they reinforce the conclusions of your Committee that at the very least the complete abandonment of the integration system and a complete restructuring of the capital gains tax is required. If at this stage the proposed integration system were to be implemented, accompanied by the treatment of capital gains in the manner proposed by the White Paper, and if, as expected, several provinces refused to harmonize their respective systems to conform to that of the federal approach, we would truly have an impenetrable jungle of tax law which would defy rational application.

3. Your Committee, however, wishes to again express its appreciation of the Government's desire to work closely with the provinces in an attempt to evolve with the passage of time a symmetrical taxation system, and it urges the Government to continue its quest for the attainment of this highly desirable goal. Criticism of, and disagreement with, specific proposals do not in any way affect this Committee's expression of hope that the attainment of this objective will be realized.

4. The necessity of continuing discussions with the provinces in order to develop a unified system is pointed up by the example of the capital gains tax. It is clear that a tax, to be fairly and equitably applied, must be related to the whole system of taxation including gift taxes, estate taxes and succession duties. If the proper credits are not worked out, the cumulative effect of the application of federal and provincial capital gains taxes, gift taxes, estate taxes and succession duties in given instances could be confiscatory in its results and ultimately damaging to the Canadian economy. The disincentives resulting therefrom are self-evident, and Canadians generally would reach a stage of not being interested in either intensive effort or saving.

5. Your Committee in its deliberations has come to the conclusion that the Government might well consider abandoning the estate tax field to the provinces, with the understanding that federal receipts from the capital

gains tax would only be allocated to those provinces applying modest death duty rates to estates so as to prevent the confiscatory features hereinbefore referred to. Your Committee goes further and hopes that, in due course, death duties in all provinces will be substantially reduced or eliminated and replaced by the receipts resulting from the application of the new capital gains tax.

XIII

IMPACT ON REVENUES AND THE ECONOMY

1. This aspect is dealt with in Chapter 8 of the White Paper. Your Committee has listened to many representations with respect to the overall effects of the proposed changes contemplated in the White Paper. Broadly speaking the conclusions of those who have made representations, if not on a unanimous basis, at least on an overwhelming basis, are the following:

(a) The proposals would have the effect of slowing down the growth of savings in Canada, thereby preventing Canadian individuals and corporations from providing the necessary moneys required for Canadian economic expansion;

(b) On balance there would be introduced under the provisions of the White Paper a series of tax disincentives both to corporations and to individuals which would be harmful to the economy of the country;

(c) The revenue receipts of the proposed new system would be substantially higher than the existing system and would have the inevitable effect of bringing about an increased diversion of resources from the private to the public sector.

Your Committee is substantially in accord with the foregoing views and strongly recommends to the Government that the merits of the foregoing conclusions be carefully studied and considered.

2. Paragraph 8.35 of the White Paper states the following:

> The tax reform proposals set forth in this paper are expected to have relatively modest impacts upon the Canadian economy apart from the effects on savings in closely-held companies, and possibly on investment in the mining industry.

Your Committee is of the view that the economic effects of the White Paper proposals will probably be far from modest, and will likely have effects far beyond the casual emuneration in paragraph 8.35 White Paper. Your Committee is bemused by the fact that the cumulative effects of the

integration system, the capital gains tax and the other changes to the taxation of domestic and foreign income are considered so minor by the White Paper that they will only have a modest impact on the Canadian economy. Your Committee does not have such confidence in the results and for this reason amongst others has rejected many of the conclusions of the White Paper. In any event, this Committee regards with disfavour the admitted effects in paragraph 8.35 White Paper on savings of closely-held companies and the possible reduction of investment in the mining industry.

3. Paragraph 8.37 White Paper reads as follows:

> The proposals in this paper involve some increases in marginal rates up to incomes of \$15,000 or \$17,000. These increases may have some modest effect on the incentive to work over-time or more intensively or to seek advancement by extra effort or training. On the whole, however, the increases do not seem large enough to change behaviour patterns in any marked degree.

Your Committee is puzzled as to the basis and evidence on which the White Paper made its broad conclusions as to its effect on the incentive of individuals and other behavior patterns, because the increase in marginal rates set forth in paragraph 8.37 White Paper was not treated with such disdain in the many briefs presented to the Committee. From these briefs your Committee must conclude that the increase in marginal rates will have a serious adverse effect on the incentive to work and it has already stated its view that the proposed increase in taxes in the middle income brackets is most undesirable.

4. Paragraph 8.41 of the White Paper estimates "a total reduction of saving of about \$150 million in the first year of the new system and about \$525 million in the fifth year, both based on estimated 1969 income levels." Your Committee regards with concern any reduction in the savings of Canadian individuals and corporations. The figures cited are both based on estimated 1969 income levels. This estimated reduction in savings might well be increased after the fifth year having regard to the hoped-for expansion of the Canadian economic level of activity. The loss of \$525 million in the fifth year represents not only the loss of that sum of money that Canadians could invest in Canadian companies or save, but beyond that such amount could constitute a credit base whereby borrowers could obtain from Canadian banking and financial institutions additional large sums of money for investment in Canada. We see here in dramatic form the consequences that would flow from the introduction of the new system, and this at a time when Canada is making every possible effort to bring about a better balance between the division of the Canadian patrimony between Canadian residents and non-residents. (See, however, the views of the Minister of

Finance dated June 11, 1970, cited in the Prologue to this report which may minimize the above problems).

5. Paragraph 8.49 of the White Paper states that "The general economic effects of these proposed tax changes would include some moderate reduction in aggregate private savings and probably some reduction in the capital expenditures of closely-held corporations and the mineral industries." Your Committee has already stated it regards these general economic effects as highly undesirable and injurious to Canada.

6. The Committee feels constrained to query the conclusions of the White Paper in respect of paragraph 8.47 where it is stated that the very substantial changes to be made in the taxation of non-residents "are not expected to cause any substantial reduction in foreign investment in Canada". Your Committee wishes to state that it is not within the ambit of its considerations to discuss whether or not a reduction of foreign ownership of Canadian businesses is or is not desirable, but it can state that, in its opinion, the provisions of the White Paper, and particularly the imposition of capital gains tax on certain foreign holders of Canadian securities, will have a serious and long term adverse effect on foreign investment in Canada. In more than one well thought out brief presented to it, the statement or implication was clearly given to this Committee that if the capital gains tax is imposed on foreigners with respect to their Canadian corporate securities, investment in Canada will be gravely affected.

7. In conclusion on this subject matter, your Committee is not completely convinced that the overall conclusions of Chapter 8 of the White Paper are necessarily grounded in fact or reflect what will be the facts in the future. It appreciates the difficulties inherent in estimating the results of such vast changes as the White Paper suggests (paragraph 8.5 White Paper) and it must conclude that the estimates of results set forth in Chapter 8 are therefore highly suspect. If personal income taxes alone are considered (paragraph 8.7 through paragraph 8.13 White Paper) a combination of three or more estimates, three or more assumptions, one "might be", one "risks of error", one "particular sequence", one "hypothetical" and one computer can hardly lead this Committee to any sense of security that the composite results set forth in the White Paper are much more than a pious hope. This general worry has not been the least of the reasons why your Committee is reluctant to advocate the overall major changes to the income tax structure recommended by the White Paper. Your Committee feels that it would be far more sensible and safe to introduce gradually amendments to the exist-

ing tax system, such as a limited capital gains tax and partial amendments to the dividend tax credit and natural resource incentives, rather than take the chance of perhaps adversely and seriously affecting the whole economy of this country.

XIV

CONCLUSIONS

1. Dynamism in reforming a tax structure is always desirable and ever-present vigilance to prevent or eliminate abuses is highly commendable. Canada in the decade of the 1970s requires a stable but flexible economic climate where the roads to prosperity should be incentive, savings, fairness and a sense of balance. Known and glaring problems as they arise from time to time should be the subject of immediate study, implemented by the necessary legislation where remedies are required. In following such a procedure the necessary detailed examination and study should be made before the implementing legislation is introduced. Such procedures, involving the intensive application to the task of the executive and legislative branches of government will lead to a viable and equitable tax structure. Such a structure should not be rigid and inviolate as was the law of the Medes and Persians, but should be clear, supple and subject to modification from time to time in order to meet inevitable changing conditions as they occur. Such changes should, however, be brought about without the necessity of toppling the entire tax structure.

2. Equity and justice do not necessarily require undue experimentation and utopian dalliance. Perfect tax systems are the fabric of dreams—not of human endeavour. Even though the motivation in seeking for perfection may be high-minded, Canada in the opinion of this Committee will reach its goal by following the dictates of reason, inspired by the realization that the quality of its people and its natural resources will guarantee the attainment of fair, equitable and just goals applicable to all Canadians.

3. The White Paper has been helpful in indicating areas where the tax structure requires modification and where new sources of revenue might be obtained. The following, in the opinion of your Committee, are the main areas where modifications to the present law are required:

(a) Increased basic exemptions and other benefits should be given to lower income bracket taxpayers but the loss of revenue to Canada therefrom should be obtained from capital gains tax and other sources without increasing the income tax rates on other Canadian taxpayers.

(b) The marginal rate on individual taxpayers from the combination of both federal and provincial taxes should immediately not exceed 52%.

(c) A capital gains tax should be introduced but in a form that is not too onerous and that will not be destructive of the saving habits of Canadians. In this respect short term gains and losses (under one year) should be treated as ordinary income and long term gains and losses (one year and over) should not be subjected to tax at a rate greater than 25%. Special benefits would be given for principal residences, property held for personal use and farmers.

(d) Certain tax loopholes should be dealt with so that tax avoidance will be eliminated as far as possible. This should be achieved through improvement of the present law and administrative systems rather than by drastic changes to the law which are either unfair or unworkable.

(e) The present system of taxing corporations and their shareholders should be basically maintained but the limitation of the low rate of corporate tax should be restricted to small business corporations and the dividend tax credit should be revised for individuals receiving large amounts of dividends. In this respect amendments to the present law should be enacted to bring about a simpler method of distribution of corporate surpluses and to impose penalties in the event of unreasonable accumulations of such corporate surpluses. The integration system and the differentiation between widely-held and closely-held Canadian corporations should be abandoned.

(f) Some changes should be made to the taxation of the mineral industries including adoption of the concept of a broadened form of earned depletion, but with some amendment the present three-year exemption of new mines should be retained.

(g) The taxation of foreigners with respect to their Canadian assets and income should be based on principles which are acceptable to the international financial community and therefore no capital gains tax should be levied on foreign holders of Canadian securities who do not have a business or permanent establishment in Canada.

(h) The administration of the income tax system should be improved and in this respect provision should be made for the issuance by

the Department of National Revenue of binding rulings so that taxpayers may foresee more reasonably the tax results of proposed transactions.

In order to bring about the foregoing changes in our tax law, it is the view of your Committee that the present Income Tax Act can be amended without undue disruption in order to bring about these objectives.

CHAPTER 2

THE INDIVIDUAL AND FAMILY

1. Your Committee approves the basic principles of paragraph 2.1 White Paper to increase personal tax exemptions and to tax capital gains.

2. Your Committee agrees with the proposal for the increase of personal exemptions set forth in paragraph 2.4 of the White Paper, but your Committee recommends that the increased personal exemptions suggested in paragraph 2.4 of the White Paper be only given to individuals whose income does not exceed $3,000 in the case of single persons and $8,500 in the case of married persons with an appropriate notch provision for persons just over these limits.

3. Your Committee concurs in the conclusions and recommendations contained in paragraphs 2.5 through 2.10 of the White Paper, and further recommends that the deduction for child care expenses in the case of a married couple be available to either spouse.

4. For the reasons set forth in Clause VI-4 of Chapter 1 and Clause 3 of Chapter 5 of this report your Committee rejects the conclusions of paragraph 2.11 of the White Paper and recommends that steps be taken for a more efficient administration of the present law in order to eliminate illegal "expense account living", to the extent that the same exists.

5. Your Committee approves the recommendations contained in paragraphs 2.12 and 2.13 of the White Paper.

6. Your Committee approves the proposal contained in paragraph 2.14 of the White Paper.

7. Your Committee concurs in the recommendation of paragraph 2.15 of the White Paper, but would extend this recommendation for expenses incurred in moving from one job location to another. Your Committee also recommends that a one year carry forward of non-utilized moving expenses be provided.

8. Your Committee concurs with the recommendations of paragraph 2.16 of the White Paper.

9. Your Committee in relation to paragraph 2.17 of the White Paper on balance concluded that the suggested system of treating personal exemptions is acceptable provided it does not in any circumstances lower the exemptions given under the present law.

10. Your Committee concurs in paragraph 2.18 of the White Paper.

11. Your Committee concurs in paragraph 2.19 of the White Paper and notes its recommendation to extend the definition of eligible charitable organizations to the entities referred to in Clause 19(b) of Chapter 5 of this report. See also Clause 18 of Chapter 3 and Clause 20 of Chapter 5 of this report.

12. Your Committee concurs with paragraph 2.20 of the White Paper.

13. Your Committee concurs in the inclusion in income subject to tax of the additional elements referred to in paragraphs 2.22, 2.23, 2.25 and 2.27 of the White Paper, but rejects the inclusion in income subject to tax of the additional elements referred to in paragraphs 2.24 and 2.26 of the White Paper.

14. For the reasons set forth in Chapter 1 and elsewhere in this report your Committee emphatically rejects changes in the rates schedules as proposed by paragraphs 2.28 through 2.44 of the White Paper, except that your Committee approves (a) the elimination of the present additional tax of 4 per cent on foreign investment income in excess of $2,400 (paragraph 2.37 White Paper) and recommends (b) the immediate reduction of the top rate of combined federal and provincial personal income tax to 50 per cent (or at least for the time being to a somewhat higher figure to take care of those provinces that impose tax at a rate of 28 per cent or higher of the federal taxes) without the five year phasing suggested by paragraph 2.42 White Paper. Whatever procedures the government ultimately feels are best, your Committee wishes to stress that in no event should the marginal rate of combined federal and provincial taxes (including Quebec) exceed 52% at any time.

15. Except to the extent set forth in Clauses 16 to 18 of this Chapter, your Committee approved in principle the conclusions with respect to the provisions of paragraphs 2.45 through 2.52 of the White Paper dealing with pension plans and retirement savings plans, but recommends that further studies in detail be made in this area and particularly on the feasibility of benefit limits before the enactment of any legislation. While it can agree in general with the provision of paragraph 2.50 that certain limits should be put on the deductibility of lump sum payments into registered retirement savings plans, the wording of the White Paper is so general that the Committee feels no legislation should be enacted in the absence of further detailed information as to what exactly is proposed. Similarly, in

paragraph 2.51 White Paper, your Committee recommends that the suggested changes be deferred pending a more detailed study which would be made available for further hearings prior to any legislation.

16. In respect of paragraph 2.52 of the White Paper, your Committee concurs in principle with the changes therein proposed, with the following amendments:

(a) On the first change, the right to offset or reduce income should be extended to all beneficiaries and not only to the widow, and this privilege should also be extended to defined lump sum payments from all types of pension plans, deferred profit sharing plans and retirement allowances;

(b) On the second change, the responsibility of the trustee of a pension or retirement plan should be limited to a fixed rate of tax on the amount of the taxable distribution;

(c) All present members of a pension or similar fund who are forty-five years of age or over and have been a member of the fund for at least ten years should be allowed to withdraw benefits under the present system of taxation if they so elect.

With respect to the income averaging formula available for withdrawal of benefits, your Committee recommends that *Section 36* of the present Income Tax Act be retained, or preferably that the retirement benefits specified in the present *Section 36(1)* be taxed at the lesser of (i) a flat rate of tax between 15 per cent and 20 per cent or (ii) the average rate of tax paid by the taxpayer for the previous five, or preferably ten, years.

17. In accordance with the general principles set forth in chapter 6 of this report, your Committee recommends that the withholding tax on pension and similar payments to non-residents should be the same whether or not the recipient is resident in a country which has a tax treaty with Canada. In addition, a non-resident recipient should be entitled to elect to be taxed on his pension and similar payments as though he were a resident of Canada and these payments were his only income.

18. Your Committee does not accord with the general elimination of registration for shareholder pension plans (paragraph 2.50 White Paper) and recommends retention of such registration where the shareholders are employees of their company substantially on a parity with other employees who are not themselves shareholders.

19. Your Committee concurs with the general proposal of paragraph 2.55 White Paper that a general averaging formula should be available to all individual taxpayers. Your Committee cannot, however, completely

accord with the procedures recommended in paragraphs 2.53 through 2.59 White Paper, for the reasons set forth in Clause IV-II of Chapter 1 of this report. Your Committee recommends that an averaging formula similar to that provided under *Section 42* of the Income Tax for farmers and fishermen be made available for all taxpayers. Your Committee, however, wishes to specifically object to the suggestion in paragraph 2.57 White Paper phasing out the averaging of special lump sum business receipts, but it agrees that the averaging of such receipts should be restricted to small business corporations as defined in Clause 6 of Chapter 4.

20. Your Committee wishes to specifically recommend that *Section 85A* of the Income Tax Act be retained, but it further recommends that it be extended to give individuals three additional options on which to compute their tax on employee benefits, namely:

(a) to take the benefit into taxable income in the year of receipt,

(b) to pay a special tax on the benefit at a rate based on the average tax rate of the taxpayer for the three prior years, or

(c) to pay tax on the benefit as though it were a capital gain.

CHAPTER 3

CAPITAL GAINS AND LOSSES

1. The Committee agrees with the proposals of the Government that capital gains should be taxed (paragraph 3.1 White Paper), but it disagrees substantially with the methods of taxing the same as set forth in the White Paper.

2. The Committee agrees that the present line between taxable income and tax exempt capital gain is not clear cut, which leads to uncertainty (paragraph 3.11 White Paper), and it, therefore, recommends that in enacting a capital gains tax appropriate definitions be provided for those assets which will give rise to capital gain and capital loss.

3. The Committee cannot accept the philosophy of Chapter 3 of the White Paper which subjects various types of assets to different treatment for capital gains purposes. It, therefore, rejects a taxation system which differentiates between personal property that depreciates with use (paragraph 3.25 White Paper), personal property that does not depreciate with use (paragraph 3.26 White Paper), shares of closely-held corporations paragraph 3.31 White Paper), shares of widely-held corporations (paragraph 3.32 White Paper) and the other types of categorized assets referred to in the White Paper. Your Committee recommends that the sale and exchange of all capital assets of every nature whatsoever should give rise to capital gain or capital loss, as the case may be, without restriction as to the nature of the asset except in the case of certain specified and defined exclusions based either on the quantum of the sale proceeds or the lifetime amount of the gain. The introduction of a capital gain tax in the form recommended by your Committee will necessarily involve detailed enacting legislation as this is a field of taxation heretofore not applied in Canada. In this chapter your Committee therefore, will only deal with some of the basic and fundamental aspects arising from the introduction of this new type of taxation.

4. The Committee takes exception to the failure of the White Paper to consider adjustments to cost basis (that is the adjusted cost platform in relation to which gain or loss is computed) as an alternative to realization and taxation of gain or loss. The Committee recommends a total revamping of the White Paper recommendations to ensure that no taxable gain or

loss is realized for tax purposes unless there has been actual realization of gain or loss in money or money's worth.

5. The Committee concurs in the recommendation of the White Paper (paragraph 3.15 White Paper) that the cost basis for gain or loss should be the value on a stated valuation date of those assets subject to the capital gains tax. The Committee, however, recommends that no gain or loss be realized on any particular asset until the value of such asset has returned to its historical cost if higher than value on valuation date. In this respect your Committee wishes to ensure that the rules for the determination of value on valuation date give due consideration to both the actual and potential earnings of a capital asset and not to its break-up value alone. Your Committee also wishes to refer to the brief presented by the Canadian Institute of Chartered Accountants which recommends that "safe haven" rules be developed which would spell out a range of acceptable methods of valuation within which the value fixed by taxpayers on valuation date would be accepted without further challenge. The Committee recommends to the Government that this proposal be studied in depth since it would appear to be a salutory suggestion to overcome what otherwise might be many years of contention and litigation. Your Committee is convinced that the White Paper proposals would tax retroactively the goodwill element of certain assets existing on valuation date by way of the denial of creditable tax under the proposed integration system or by way of the tax on capital gains. To avoid this retroactive taxation of an integral element of such property, which your Committee cannot condone, your Committee recommends that, where applicable, goodwill existing at valuation date must form part of the value of all assets and must not under any circumstances be subject to any form of retroactive taxation.

6. The Committee recommends that property held for personal use or enjoyment of every nature whatsover, including all of the assets referred to in paragraphs 3.22, 3.25 and 3.26 of the White Paper, be included for purposes of computing capital gain or capital loss, as the case may be, except in the case of each sale or exchange by an individual where the proceeds of such sale or exchange do not exceed $5,000. Your Committee further recommends exemption from capital gains tax to the extent of the first $50,000 of aggregate net lifetime gains derived from the sale or exchange by an individual taxpayer or his spouse of their principal residence. In addition, your Committee recommends that where assets sold or exchanged constitute the principal residence of the taxpayer or the types of assets referred to in paragraphs 3.22, 3.25 or 3.26 of the White Paper or any other assets used by an individual for his personal use or enjoyment, a full mandatory roll-over provision be provided against realization of gain or loss to the extent the taxpayer replaces the asset so sold or exchanged within one year

of the date of its sale or exchange with an asset of a similar category. If and to the extent, however, any of the foregoing items comprise part of the operating business assets of a taxpayer, (including, of course, speculative assets held primarily for sale to customers in the ordinary course of business), they would continue to be subject to the ordinary rules applicable to the taxation of business income and realization of inventory under the general sections of the Income Tax Act (paragraph 3.27 White Paper).

7. Your Committee recommends exemption from capital gains tax to the extent of the first $75,000 of aggregate net lifetime gains derived from the sale or exchange by an individual or his spouse (or by a corporation where such individual or spouse, because of statutory provisions, is obliged to operate through corporate ownership) of farms and orchards where the principal occupation of the transferor is farming.

8. Subject to the stated exclusions, the Committee recommends, therefore, that all capital assets be subject to the capital gains tax, including the types of investments referred to in the first sentence of paragraph 3.28 of the White Paper.

9. For reasons set forth in this report, the Committee recommends that no distinction be made for capital gains purposes between closely-held Canadian corporations and widely-held Canadian corporations, as there appears to the Committee to be no acceptable justification for creating such separate categories of corporations.

10. The Committee recommends that capital assets (which by definition would give rise to capital gain or capital loss) should be defined as assets not held primarily for sale to customers in the ordinary course of business (which would be subject to ordinary income tax).

11. The Committee recommends that short term capital gains and losses and long term capital gains and losses should be treated and taxed differently.

12. The Committee recommends that short term capital gains and losses should be defined as those realized from the sale or exchange of capital assets held for less than one year and that such short term capital gains and losses should be fully brought into income and otherwise taxed under the Income Tax Act in the same way as other income.

13. The Committee recommends that long term capital gains and losses should be defined as those realized from the sale or exchange of capital assets held for one year or more and that for both corporations and individuals the excess of long term gains over long term losses in each taxation

year should be taxed at the lower of the rate of 25 per cent or one-half the marginal income tax rate of the taxpayer. The Committee wishes to ensure that the law be drafted in such a way that under no circumstances will a taxpayer have a higher effective tax rate or a higher marginal tax rate on his other income by virtue of such taxpayer having made net long term capital gains in a taxation year.

14. The Committee recommends that short term capital losses should be fully deductible in the computation of short term capital gains and ordinary income, but the Committee recommends that long term capital losses should be fully deductible only in the computation of long term capital gains.

15. In view of the difference of rates applicable to long term capital gains and ordinary income, and the clearer definition of when gain or loss is realized, the Committee feels that the suggested averaging provisions recommended by the White Paper (paragraph 3.17 White Paper) will be unnecessary for long term capital gains and that taxes on these capital gains should be collectible in the year of their realization. In order to mitigate the effects of the foregoing, however, the Committee recommends that long term capital losses be subject to a three year carry back and an eight year carry forward provision.

16. In accordance with present United States and United Kingdom practice, the Committee recommends that capital gains and losses of non-residents of Canada should, in all cases, continue to be non-taxable by Canada except where (a) the non-resident taxpayer is carrying on business in Canada or, in the case of countries with which Canada has a tax convention, has a permanent establishment in Canada, and except where (b) in both instances, such capital gains and losses derive from the business or permanent establishment, as the case may be.

17. In view of the need of Canada to attract investment capital, the Committee strongly recommends that all of the White Paper doctrines of tax on unrealized appreciation should be eliminated. The Committee, therefore, recommends the removal from the proposed capital gains tax of

(a) the five-year revaluation rule for shares of widely held Canadian corporations (paragraph 3.33 White Paper),

(b) the deemed realization of capital gain or loss on individuals giving up Canadian residence (paragraph 3.40 White Paper), and

(c) the deemed realization of capital gain or loss on the value of gifts (paragraph 3.41 White Paper).

18. On the subject of gifts and bequests, the Committee feels that with the elimination from the ambit of the capital gains tax of certain

amounts of property held for personal use or enjoyment, the problems in this area will be considerably reduced. The Committee recommends that, to the extent gifted or bequeathed assets remain subject to the capital gains tax, no capital gains tax be imposed at the time of the gift or bequest, except in the case of gifts or bequests to non-residents, but that the recipient of the property (including executors and trustees) take the property at the same cost basis as the cost basis of the donor or deceased, as the case may be, increased by the amount of any gift tax or estate tax or succession duties imposed upon the transfer. In effect, therefore, the Committee concurs in substance with the recommendation of paragraph 3.42 of the White Paper, but recommends that it be extended to *inter vivos* gifts. With respect to gifts of property to museums and other charitable organizations, the Committee wished to retain to the extent possible incentives for the continuation of such gifts, while at the same time, not permitting taxpayers an unfair use of such donations for the purpose of realizing tax benefits not basically contemplated by the taxing statute. On balance, therefore, your Committee came to the conclusion that there should be no capital gains tax imposed on gifts of property to museums, universities, or charitable organizations, but that a taxpayer not be permitted to deduct in the computation of his income a greater amount under *Section 27(1)(a)* of the present Income Tax Act than the cost (or value on valuation date) to him of the asset donated.

19. The Committee recommends that further consideration be given by the government to the whole concept of cost basis of assets for capital gains and losses, since the absence of any consideration thereof in the White Paper makes any comprehensive analysis of the proposed capital gains tax very difficult. In coming to conclusions on cost basis, the Committee strongly recommends that all expenses related to capital assets which are not deductible in the computation of income be added to the cost basis of such assets for purposes of the capital gains tax, since otherwise failure to make such adjustments to cost basis would result in the creation of a vast new area of "nothings" which the White Paper specifically wishes to eliminate (paragraph 5.4 et seq White Paper).

20. The Committee recommends that the roll-over provisions of paragraphs 3.43 to 3.52 of the White Paper and particularly paragraph 3.47, should be substantially amended so as to permit greater ease of transfer of assets and tax free incorporations and reorganizations. In this respect the Committee recommends that the roll-over provisions be extended so that sales and exchanges will not give rise to taxable gain or loss unless and until money or other things or rights readily convertible into money (other than shares or other securities arising out of the roll-over) have been received

by the transferor, but that the cost basis and holding time of the things received be the same as the cost basis and holding time of the things transferred for purposes of subsequent imposition of capital gains tax. The Committee recommends, however, that where the roll-over transfer is to a foreign entity, the free roll-over provisions should only apply where the purpose of the transaction is not primarily for the purpose of avoiding Canadian taxes. With respect to liquidation or winding up of Canadian corporations, (paragraph 3.49 White Paper) the Committee similarly recommends that with respect to capital distributions no gain or loss should be realized by domestic Canadian taxpayers except to the extent they receive money or other things or rights readily convertible into money (other than shares or securities distributed in the liquidation). To the extent assets are distributed which do not result in the realization of gain or loss, these assets should take the same cost basis and holding time as the securities of the liquidating corporation in respect of which the distribution is made, but the same rule heretofore recommended should apply in respect of distributions to foreign shareholders. (See Clause 9 of Chapter 4 below).

21. In addition to the subject of tax free incorporations and reorganizations, the Committee suggests to the Government that considerable further study be given to the enactment of provisions permitting roll-over of reinvested gains so as to avoid any undue impediment of transfers of capital from one form of investment to another. Your Committee in this respect recommends that provisions be adopted permitting a group of companies to transfer assets between the companies comprising the group at cost, without such transfer being considered to be a realization of gain for tax purposes. With respect to insurance proceeds and the like, the evidence submitted suggested that the one-year requirement for reinvestment (paragraph 3.44 White Paper) is not realistic and is far too stringent, and your Committee therefore recommends that no tax should apply if a commitment to replace the asset is legally made within one year after its destruction or forced realization occurs, provided that the replacement is completed within three years after the destruction or forced realization takes place.

22. Your Committee recommends that unrealized gains on the exercise of stock options should not be taxable but that the cost basis of the shares acquired under such options should be their cost to the taxpayer plus any amount paid for the stock option.

23. Your Committee has already dealt in Clause V-5(c) of Chapter 1 and Clause 6 above with its recommendation for extended roll-over provisions in the case of property held for personal use or enjoyment.

CHAPTER 4

CORPORATIONS AND THEIR SHAREHOLDERS

1. Your Committee rejects the government's proposal to create one set of rules for closely-held corporations and another set of rules for widely-held corporations (paragraph 4.19 White Paper) and recommends that all corporations be treated in the same manner independently of the criteria set forth in paragraph 4.43 of the White Paper. Your Committee was convinced on the basis of the many submissions to it that there were serious anomalies created by the differentiation between closely-held and widely-held Canadian corporations. In no area was this clearer than in the examples presented to the Committee of corporate structures wherein there was a mixture of closely held and widely held corporations. Your Committee felt that a tax system which would permit these results was in every sense unacceptable and that the restructuring of many of these corporate organizations would be expensive at best and in some instances impossible due to business factors outside the realm of taxation.

2. The Committee recommends that the present system of credits for corporate dividends, contained in *Sections 28* and *38* of the present Income Tax Act, be maintained and rejects the proposals of Chapter 4 of the White Paper to integrate corporate and shareholder taxes by giving credits to shareholders for corporate taxes paid. The Committee has in Chapter 1 of this report already set forth the many reasons why it was forced to come to the conclusion that the integration proposals contained in the White Paper are not acceptable, which views have been virtually unanimously supported by the very large number of briefs submitted to the Committee.

3. The Committee recommends, however,

(a) that *Section 38* of the Income Tax Act be amended to provide that the credit for dividends therein contained be amended to provide for a credit of (i) 25 per cent for the first $500 of gross dividends received in each year by an individual taxpayer, (ii) 20 per cent for the next $4,500 of gross dividends received in each year by an individual taxpayer, and (iii) 15 per cent for any dividends in excess thereof,

(b) that *Section 105* of the Income Tax Act be extended to undistributed income on hand after the end of the 1949 taxation year without complying with the requirements of *Section 105(2)* of the Income Tax Act, and

(c) that an equivalent provision to *Section 105* of the Income Tax Act be introduced to permit designated surplus under *Section 28(2)* of the Income Tax Act to be converted upon payment of a flat 15 per cent tax into surplus which can be passed by tax free intercorporate dividends under *Section 28(1)* of the Income Tax Act.

The revenue cost to Canada on the aggregate of these dividend tax credit and other proposals should not constitute a substantially greater charge than the present system.

4. In order to avoid the undue accumulation of inter-corporate dividends from investment, the Committee recommends that all intercorporate dividends which have been received tax free by a Canadian corporation be subjected to a 15 per cent tax on the gross amount thereof if:

(a) such dividends have derived from less than a 25 per cent holding of the class of shares in respect of which the dividend was derived, and

(b) an amount equal to such dividends has not been distributed as a dividend by such Canadian corporations by the end of the fifth taxation year following the taxation year in which such intercorporate dividends were received, unless the declaration and payment of such a dividend is prohibited by law or by arm's length contract, provided, however, that in no event, shall the amount subject to the 15 per cent tax exceed the increase in undistributed income on hand from the date of receipt of such intercorporate dividend to the date of payment of the dividend.

All such dividends on which such 15 per cent tax has been paid would constitute tax paid undistributed income within the meaning of *Section 82(1)(b)* of the present Income Tax Act. Your Committee notes that proper safeguards would have to be introduced to ensure that payment of the tax is not avoided by distributing the dividend to a related corporation.

5. Your Committee concurs in the proposal of paragraph 4.21 of the White Paper for a limited election by a corporation to be treated as a partnership. Such partnership election shall have no application to losses except in the case of a parent-subsidiary relationship, the losses being available for carry forward against future profits. The Committee recommends, however,

that the restrictions of paragraphs 4.23 of the White Paper be eliminated. With respect to paragraph 4.23 of the White Paper:

(i) the Committee is convinced provision can be made to allocate the income of the electing corporation to various classes of shareholders;

(ii) the Committee recommends that the election be permitted even where there are foreign shareholders of a corporation electing to be a partnership, but that in such instances the net taxable income attributable to such foreign shareholders be taxed at a flat $57\frac{1}{2}$ per cent rate; and

(iii) the Committee recommends that corporate shareholders of the electing corporation may have different fiscal year ends from the electing corporation, except where the purpose of such different fiscal year ends is primarily for the purpose of avoiding Canadian taxes.

The Committee stresses that the above recommendation is independent of and in addition to its recommendation (contained in Clause 7 of Chapter 5 of this report) that consolidated returns be authorized.

6. As a result of the recommendation that the integration proposals be eliminated, the Committee recommends that the low rate on the first $35,000 of taxable income provided in *Section 39* of the Income Tax Act be maintained, but only in the case of business income of small business corporations. A small business corporation would be defined as a corporation whose net income in a given taxation year does not exceed $100,000 and whose shares (and the shares of any corporation or corporations directly or indirectly controlling it) are not traded on a recognized stock exchange in Canada or elsewhere or over the counter. A corollary of the foregoing would be the enactment of a notch provision which would ensure that a corporation with income before taxes of over $100,000 a year would not be left with less income after taxes than would a corporation with income before taxes of exactly $100,000. Because of the extreme importance of this recommendation, the Committee has set forth in an Appendix to this report a full summary of the reasons for its conclusions, as well as a more detailed analysis of how it would treat qualified small business corporations.

7. As a further consequence of the elimination of the integration proposals and the distinction between closely-held Canadian corporations and widely-held Canadian corporations, the Committee is of the opinion that paragraphs 4.24 to 4.44 and 4.74 to 4.79 (other than 4.78) of the White Paper would no longer be applicable. Had the integration proposals been ac-

cepted the Committee feels constrained nevertheless to state that in no event could it have concurred with paragraphs 4.19, 4.27, 4.30, 4.33, 4.35, 4.36, 4.39, 4.42, 4.43 and 4.44 of the White Paper.

8. As a result of the recommendation that no distinction be made between closely-held Canadian corporations and widely-held Canadian corporations and the consequent removal of the necessity of treating gains and losses on their shares in a different manner, the Committee is of the opinion that the provisions of paragraphs 4.33 and 4.45 of the White Paper would no longer be applicable. The Committee is, however, aware that the maintenance of the present system of tax free intercorporate dividends could affect the collection of capital gains tax from corporations through the use of tax free dividends in order to limit the gain on sale of shares by the recipient corporation. The Committee concurs, therefore, with the general procedures set forth in paragraph 6.19 of the White Paper that the cost basis of shares held by corporations be reduced by the amount of tax free dividends received on such shares, but the Committee recommends that such reduction of cost basis should only apply in respect of tax free dividends deriving from capital distributions that do not become part of the undistributed income on hand of the receiving corporation. As a corollary of the foregoing, ordinary dividends derived from the capital or capital surplus of the declaring corporation would be deemed for these purposes not to become part of the undistributed income on hand of the receiving corporation. Any such dividends which reduce such cost basis below zero would, of course, be subject to short term or long term capital gains tax, as the case may be, depending on the length of time that the receiving corporation held the shares of the declaring corporation.

9. Your Committee recommends that a similar approach be adopted on the liquidation of Canadian corporations, namely that undistributed income on hand distributed in liquidation continue to be treated as under the present provisions of the Income Tax Act but that any distributions of capital or capital surplus be taxable to the recipient shareholder in the manner set forth in Clause 20 of Chapter 3 and Clause 8 above.

10. The Committee is also aware of the disproportions that have arisen by virtue of the present law in the value of shares as against corporate assets and the different prices that will be paid by purchasers therefor, but with the advent of the proposed capital gains tax, the Committee is of the opinion that this disproportion will be mitigated. In order, however, to eliminate any residual differences, the Committee recommends that where all or substantially all of the shares of a corporation are purchased and the acquired corporation is liquidated within one year of the date of acquisition, the cost basis and the undepreciated capital cost of the assets received in

liquidation be related to the purchase price of the shares plus any taxes paid on the liquidation without regard to the cost basis and undepreciated capital cost these assets had in the corporation which was liquidated.

11. The Committee does not concur with the conclusions of the White Paper in Sections 4.46 and 4.47 and it recommends that, except in the case of tax free intercorporate dividends, an individual or corporate Canadian shareholder of a foreign corporation should receive credit, not only for foreign withholding taxes, but for a pro rata proportion of the corporation taxes paid to foreign jurisdictions by such foreign corporations, if such shareholder directly or indirectly owns 10 per cent or more of the common shares of such foreign corporation. This would in effect extend the concepts of paragraph 6.17 of the White Paper to all taxable Canadian shareholders of foreign corporations owning 10 per cent or more of the common shares of such foreign corporations. Conversely, and in the light of the recommendation that the integration proposals be eliminated, the Committee does not feel that it is necessary to provide, as suggested in paragraph 4.40 White Paper, for any flow through to *Canadian* shareholders of *Canadian* corporations of any foreign taxes paid except in those instances where the Canadian corporation has not received a full usable credit for the foreign taxes paid and a Canadian shareholder of such Canadian corporation is himself subject to tax on dividends received from such Canadian corporation.

12. As a result of the recommendation that the integration proposals be eliminated, the Committee concurs with paragraphs 4.49 and 4.50 of the White Paper denying to foreign shareholders any credit for Canadian corporate taxes paid. The Committee could not have concurred in this result if the integration proposals had been accepted, since to so have done would, in the opinion of the Committee, have gravely militated against the ability of Canada to enter into appropriate tax conventions with foreign countries.

13. As a result of the recommendation that the integration proposals be eliminated, no comment is needed by the Committee in respect of paragraphs 4.51 through 4.65 of the White Paper, and the Committee recommends that the existing rules under the Income Tax Act continue to apply to intercorporate shareholdings, shareholdings by pension funds and other tax free entities, shareholdings by mutual funds and shareholders of electrical, gas and steam utilities. In particular, however, the Committee wishes to note that had the integration proposals been accepted, it would have considered the provisions of paragraphs 4.63 through 4.65 of the White Paper, denying the tax credit benefits to shareholders of electrical, gas and steam utilities, to be unacceptable, because these corporations pay the full federal corporate tax applicable to them and it should be irrelevant as to what use the federal government makes of such tax receipts. See further on mutual funds and

utilities Clause VIII-10 and VIII-11 of Chapter 1 and the Prologue to this report.

14. The Committee concurs in general with the concept that all corporations incorporated in Canada or in any of its provinces should constitute Canadian taxpayers without regard to any technical questions of residence or non-residence. The Committee, therefore, concurs in the recommendations of paragraphs 6.31 through 6.33 of the White Paper eliminating foreign business corporations, and further recommends that all corporations incorporated in Canada or in any of its provinces be resident in Canada, regardless of their date of incorporation or prior status. The Committee cannot, however, concur in the recommendations of paragraphs 4.66 and 4.67 of the White Paper and it recommends that foreign corporations which are managed and controlled in Canada have the right and obligation to be treated, in all respects, in the same manner as companies incorporated under the laws of Canada or any of its provinces.

15. The Committee has concluded that paragraphs 4.68 through 4.73 of the White Paper, dealing with co-operatives, caisses populaires and credit unions, contain matters which go far beyond simple tax analysis and that, therefore, it would not be proper for the Committee to reach firm conclusions in this area. The Committee wishes to note, however, that it has received comprehensive briefs from affected parties on these subject matters, and the Committee requests that government in considering its over-all policy to these entities take cognizance of the breadth and importance of these representations.

16. The Committee concurs in the concept contained in paragraph 4.78 of the White Paper providing for a flat 15 per cent tax on distributions of undistributed income on hand to individuals but it strongly objects to the second sentence of paragraph 4.78 where such distributions would lower the cost basis of the shares on which such distributions were made. The Committee further recommends that:

(a) tax not be applied to realized capital gains included in retained earnings so that they may be subsequently paid out without further income or capital gains tax; and

(b) the option to pay the tax be made available immediately so that payment of the tax and distributions consequent thereon may be made before valuation date.

CHAPTER 5

BUSINESS AND PROPERTY INCOME

1. The Committee concurs with the proposals to create a new depreciation class for "nothings" (paragraph 5.5 White Paper), and concurs in the rate of 10 per cent therein suggested. The evidence submitted to your Committee, with which your Committee concurs, recommends that any legislation arising from the proposals should be drafted in such a fashion that all business costs (including, for example, rights of way, rights of use, rights to contracts, interest on tax assessments, legal expenses related to acquisitions, costs incurred for approved continuing education courses, financing commissions, bond discounts, commissions on share issues, finders fees, etc.) should either be currently deductible or included in the new depreciation class. Your Committee, however, recommends that goodwill should not constitute a "nothing" for purposes of this new depreciation class but should be dealt with in the same way as land, which the Committee assumes is not proposed by the White Paper to be included within the category of "nothings".

2. The Committee rejects the conclusions that prior goodwill is a disappearing asset (paragraph 5.7 White Paper) and recommends that goodwill not be subject to diminution in determining cost basis for purposes of the capital gains tax. The Committee also rejects the proposition of paragraph 5.8 of the White Paper as being in violation of the stated policy of the White Paper (paragraph 3.15 White Paper) that accumulated value prior to valuation date should not be subject to capital gains tax.

3. The Committee rejects the proposals (paragraphs 5.9 and 5.10 White Paper) which would deny deductibility of legitimate entertainment and related expenses and recommends that the taxpayers of Canada should not be penalized because of administrative difficulty in properly distinguishing between legitimate and improper entertainment expenses. The Committee is of the view that the provisions of the Income Tax Act, and particularly *Section 12*, are, if properly administered, sufficiently broad in their scope to prevent abuses or improprieties in this area. See Clause VI-4 of Chapter 1 of this report.

4. The Committee, after hearing the various briefs presented to it, has concluded that the present system of depreciation (although not necessarily the depreciation rates) now in force are, in all the circumstances,

proper and acceptable and the Committee recommends that no changes be made in the present system of capital cost allowances. In any event, the Committee is of the view that because of the importance of this subject no changes should be made until taxpayers have had a further opportunity to put forward their views and experiences after the other aspects of the White Paper have been settled, this being in conformity with the recommendation of paragraph 5.14 of the White Paper. The Committee, however, recommends for the consideration of government whether the pool concept on recapture of depreciation might not be conveniently extended on an adjusted basis to capital gains and losses made on depreciable assets.

5. The Committee concurs with the general concept that corrective measures must be taken to eliminate the present use of excess depreciation to lower the income tax imposition on companies and individuals not using the assets being depreciated in their business or profession. The Committee, however, rejects the proposals of paragraph 5.17 of the White Paper and recommends:

(a) that the cost basis of donated or inherited property for both capital gains purposes and capital cost allowance purposes be as set forth in Clause 18 of Chapter 3;

(b) that the restriction on the deduction from income of a loss from holding real property (if that loss is created by capital cost allowance, interest or property taxes) be restricted to corporations and individuals not engaged directly or through subsidiary companies in the business of renting property and that such prohibition be extended beyond property which is real estate to all depreciable property of every nature not used directly or indirectly in the business or profession of the taxpayer; and

(c) that the separate depreciation class for each rental building that costs $50,000 or more be eliminated.

In applying (a) above, if depreciable property received by a beneficiary of an estate or donee (which would be deemed to be received as its undepreciated capital cost to the deceased or donor, as the case may be) is sold, the recapture of depreciation would be subject to income tax, even though death taxes or gift taxes had previously been paid on this amount, thus resulting in double taxation. As a result of the foregoing, your Committee recommends that estate taxes, succession duties and gift taxes be permitted to reduce the recapture of depreciation through an addition to the undepreciated capital cost of the relevant depreciable assets. In applying (b) above, the Committee recommends that the present law continue to apply to property now owned by taxpayers and that the suggested rule apply only

to future acquisitions. In effect, the Committee recommends that both individuals and corporations not be entitled to deduct capital cost allowance, interest or property taxes on all kinds of property acquired in the future, including real estate, where the effect thereof would be to lower the taxable income of the taxpayer and where such property was not held directly or indirectly for use in the business or profession of the taxpayer.

6. The Committee concurs with the recommendation of paragraphs 5.18 and 5.19 of the White Paper, but without, of course, any limitation on rental buildings which cost more than $50,000 (See Clause 5 above).

7. The Committee strongly recommends the rejection of the proposal that no provision be made for consolidated returns (paragraphs 5.20 and 5.22 White Paper) and recommends the enactment of provisions permitting such consolidated returns without any increase in the corporation tax rate applicable to the consolidated income so reported.

8. The Committee concurs with the conclusion of the government (paragraph 5.24 White Paper) that special incentives are needed for the mineral industries recognizing that "the exploration for and development of mines and oil and gas deposits involve more than usual industrial risks and the scale of these risks is quite uncertain in most cases". Your Committee, however, cannot concur in the conclusion of the White Paper (paragraph 5.24 White Paper) that the present incentive procedures need to be revised substantially, although the Committee is of the opinion that the present incentives should be modified in certain ways and certain suggestions of the White Paper should be adopted.

9. Your Committee recommends the implementation of the proposal in the White Paper, paragraph 5.26 except as to the part that refers to 20 per cent of the net book value of the asset class to be created and recommends that this annual deduction be increased to 30 per cent.

10. Your Committee concurs with paragraph 5.27 White Paper extending the right to deduct costs of acquisitions of all types of mineral rights. The conclusions, however, of paragraph 5.28 White Paper to the extent that the profits of any sale of rights which would not have been taxable under the existing rules would become taxable on more than the increment of value after valuation date are not acceptable and the Committee recommends against their implementation.

11. The Committee recommends against the implementation of paragraph 5.28 White Paper and its proposed transitional rule. The proposed special rule as to the value of mineral rights held on the date of publication of the White Paper is in substantial part retroactive taxation. In place of this special rule, your Committee recommends that such mineral rights and as

well as those rights acquired between the day of publication of the White Paper and valuation day be valued on valuation day as in the case of other assets subject to capital gains tax.

12. Your Committee rejects the conclusions of paragraphs 5.31 through 5.35 White Paper, but agrees that the present three-year full tax exemption for new mines should be reduced to a 75 per cent exemption on the earnings of such mines in their first three years of commercial production.

13. Your Committee approves the proposals of paragraphs 5.29 and 5.30 White Paper providing for a quicker write off of the full cost of mining machinery and buildings out of income of a new mine and recommends that such allowance should be extended to assets of an existing mine where such assets are acquired for a substantial expansion of such mine or the replacement of substantial assets.

14. Your Committee recommends:

(a) that earned depletion as proposed in paragraph 5.40 White Paper be modified to provide a minimum base rate of percentage depletion or "floor" established at 20 per cent of the profits derived from production of a mineral resource, such calculation to be after deduction of expenses for exploration and development in accordance with the present law;

(b) that the eligible expenditure formula for earned depletion provided in paragraph 5.40 White Paper be implemented with a top limit of 33⅓ per cent of production profits (inclusive of the 20 per cent floor referred to above), such calculation to be made after deduction of exploration and development expenses from production income and that the definition of eligible expenditures be broadened so that existing mines and new mines as well as oil and gas wells will have a broader base on which to earn depletion. Thus expansion of existing facilities and replacement of machinery and buildings as well as fixed assets subject to capital cost allowance should qualify as eligible expenditures;

(c) that the proposal in paragraph 5.42 White Paper be amended by extending the right therein contained for a ten year period in respect of production profits from properties now owned and operated;

(d) that paragraph 5.43 White Paper be implemented to eliminate the percentage depletion available to non-operators, but only to the extent that the interests of such non-operators are acquired after the date of the White Paper or commitments to acquire have been made after such date. Failing this in the opinion of your Com-

mittee, such non-operators would be made subject to tax on the proceeds received under existing agreements which were concluded under the present rules of percentage depletion which may have been a factor in the price accepted. In respect of new agreements made after November 7, 1969, your Committee recommends that the value to the oil and gas industry, and in relation to development of mineral rights, of the financing available through such agreements with non-operators be thoroughly reviewed. Furthermore the need for depletion incentive to attract such non operators to invest in such agreements should be the subject of further study;

(e) that paragraph 5.44 White Paper be implemented by the removal of shareholders' depletion; and

(f) that cost of acquiring rights to mining or oil and gas property when acquired directly from the Crown, federal or provincial, be an eligible expenditure.

15. Your Committee recommends against the implementation of proposals in paragraph 5.45 of the White Paper to withdraw an exemption heretofore enjoyed by prospectors and grubstakers under Section 83 of the Income Tax Act.

16. In the view of your Committee no sufficient reason is given for the proposal referred to in paragraph 15 above except the withdrawal must be made because of the proposal to tax capital gains. This exemption was an exception to the right to levy income tax on proceeds of the sale of a mining property. Equally, this exemption could remain without effecting the introduction of a capital gains tax. The question of withdrawing this exemption should be considered on its own merits.

17. The Committee rejects in its entirety the proposal that taxpayers in the professions be required to report their income on an accrual basis. (paragraph 5.46 White Paper).

18. The Committee concurs generally with paragraphs 5.48 through 5.53 of the White Paper to the extent that farmers and fishermen would continue to be taxable on their capital gains.

19. The Committee concurs with the proposition that investment income of organizations which are covered by *Section 62(1)(i)* of the Income Tax Act be subjected to the corporation tax (paragraph 5.54 White Paper) but only above $5,000 of net income in each year. The Committee also recommends:

(a) That in computing the net income of such organizations, operating losses be deductible from investment income, and

(b) That social welfare and civic improvement clubs, societies or associations (such as museums, civic betterment groups etc.) be removed from the ambit of *Section 62(1)(i)* of the Income Tax Act and be added to the charitable organizations and corporations comprised in *Section 62(1)(e)* and *Section 62(1)(f)* of the Income Tax Act.

With respect to (b) above, your Committee concluded that the answer to whether or not investment income of these organizations should be taxed should depend on the nature of the organization and, therefore, on its use of the income. If the income is used in the public interest, it should not be taxed, but if the income is to be spent for the private enjoyment of members, then such income should be taxed to the extent it exceeds the defined amount.

20. Your Committee recommends that legislation be enacted to equate privately owned museums which serve the public interest to state museums so that, in effect, all museums and similar institutions would be treated as though they fell within the ambit of *Section 27(1)(b)* of the present Income Tax Act.

21. The Committee concurs with the general proposition of paragraph 5.56 of the White Paper, pursuant to which certain trusts would be treated as corporations or mutual funds, depending on the circumstances, provided that the law only covers those trusts which have issued transferable or redeemable units to the public and the use of the trust form is really a substitution for a corporation or mutual fund.

22. The Committee rejects the proposals contained in paragraph 5.57 of the White Paper for a flat tax rate on trusts and recommends the retention of the present system now contained in the Income Tax Act for taxing trusts.

CHAPTER 6

TAXING INTERNATIONAL INCOME

1. Your Committee condemns the philosophy of substantial portions of Chapter 6 of the White Paper which imply that vast tax avoidance schemes exist through the use of foreign entities. Nothing your Committee has heard has indicated that this implication is correct and, in fact, the Committee notes that even if all the proposals of the White Paper regarding tax haven abuses were adopted, the White Paper Table 16, item 8 claims that a maximum of $10,000,000 annually would be added to gross revenue (without, presumably, taking into account the substantial increase in administrative costs of collection).

2. Your Committee queries the failure of the White Paper to consider whether existing tax avoidance abuses (as for example the fact situation cited in paragraph 6.4 White Paper) could not be effectively blocked under the existing legislation of the Income Tax Act and that failure to block such abuses (if they exist) is due more to lack of enforcement of existing law than to lack of legislation. In this respect the Committee notes the existing provisions *of Sections 8(1), 8(2), 16(1), 17(1), 17(2), 17(3), 17(4), 21, 22, 23, 67, 68, 137(1), 137(2), 138, 138A(1), and 138(A)2* of the Income Tax Act, the rules of corporate residence found in the present case law and the laws of agency, which together form a veritable arsenal of provisions against tax avoidance if properly administered. The Committee recommends, however, that in addition to making all corporations incorporated in Canada or in any of its provinces residents of Canada (Clause 14 of Chapter 4) the definition of Canadian residence of foreign corporations be extended to include all foreign corporations which are factually managed and controlled in Canada regardless of where their boards of directors exercise their powers.

3. Your Committee rejects the assumption that Canada will be able to easily re-negotiate its tax conventions with various foreign countries, even though many of the proposals of the White Paper on treatment of foreigners run counter to international practice. Everything that the Committee has heard in the briefs presented to it has convinced your Committee that the negotiation of such tax conventions would be extremely difficult, if not im-

possible, if all or substantially all of the recommendations of the White Paper were adopted.

4. Your Committee concurs in the conclusion of the White Paper to continue to exempt dividends received by a Canadian corporation from a 25 per cent or more controlled foreign corporation (paragraph 6.15 White Paper), but it rejects the conclusion of paragraph 6.15 White Paper that this privilege be extended only to dividends from those countries with which Canada has concluded tax treaties. The Committee is of the opinion that such an enactment would gravely affect the potential for investment by Canadians in under-developed countries, which countries by and large do not have tax treaties with Canada.

5. The Committee concurs in principle with the provisions of paragraph 6.17 of the White Paper and, as noted in Clause 11 of Chapter 4, your Committee recommends that it be extended to individual and corporate Canadian shareholders of foreign corporations who do not receive tax free intercorporate dividends and who own 10 per cent or more of the common shares of the foreign corporation.

6. The Committee concurs in principle with paragraph 6.19 of the White Paper in the sense that it has previously recommended the wider use of adjustments to cost basis as an alternate to realization of gain or loss for capital gains tax purposes. The Committee, however, recommends that adjustments to cost basis of the shares of the foreign corporation held by the receiving Canadian corporation should only apply in respect of dividends that do not go into the undistributed income on hand of the receiving corporation and which arise out of capital distributions. (See Clause 8 of Chapter 4).

7. Your Committee rejects in their entirety paragraphs 6.20 and 6.21 of the White Paper and concludes that the introduction of equivalent provisions to Subpart F of the United States Internal Revenue Code would be a grave error. The Committee has concluded on the basis of the briefs presented to it that Subpart F has proven to be an inordinately complicated and inefficient tool in the United States, and that current legislation is being directed to substantially reduce or eliminate many of its effects. The Committee recommends that rather than the enactment of new legislation to control so-called tax avoidance on passive income (which the Committee is convinced can be controlled under the present legislation by stricter administration) legislation be introduced, such as that now contemplated by the United States for Domestic International Sales Corporations, in order to aid Canadian exporters to compete adequately with their counterparts in foreign countries.

8. Your Committee rejects paragraph 6.22 of the White Paper and recommends that all foreign withholding taxes regardless of their amount be subject to credit in Canada, within the limitations now provided by *Section 41* of the Income Tax Act.

9. Your Committee concurs with the recommendations of paragraphs 6.24, 6.25 and 6.26 of the White Paper.

10. As a result of the recommendation that the integration proposals be eliminated (see Chapter 4) the Committee is of the opinion that no flow through for foreign taxes should be given to *Canadian* shareholders of *Canadian* corporations, (See Clause 11 of Chapter 4), except in those instances where the Canadian corporation has not received a full usable credit for the foreign taxes paid and a Canadian shareholder of such Canadian corporation is himself subject to tax on dividends received from such Canadian corporation. Your Committee, however, concurs in principle with paragraphs 6.29 and 6.30 of the White Paper, and recommends permission for a complete flow through of foreign taxes to foreign shareholders of Canadian corporations.

11. As noted in Clause 14 of Chapter 4, your Committee concurs with the recommendations of paragraphs 6.30 through 6.33 of the White Paper for the elimination of foreign business corporations.

12. Your Committee strongly objects to the proposal of paragraph 6.36 of the White Paper to increase the Canadian withholding tax rate to 25 per cent except in the case of payments to countries with which Canada has a tax treaty. With particular reference to interest, the Committee feels it would be a grave mistake to inhibit the lending of money into Canada (in contradistinction to the acquisition by foreigners of equity share positions in Canadian corporations) and the Committee is convinced that a substantial portion of available funds from foreign jurisdictions will derive from countries with which Canada does not have a tax treaty, such as Switzerland. The Committee does suggest to government that it seriously consider the elimination of all withholding taxes on interest payments to arm's length foreign lenders. (See Clause XI-3 of Chapter 1).

13. Although the White Paper is not clear on the subject, the Committee wishes to confirm that it recommends the retention of the 10 per cent withholding tax of Section *106(1a)(b)* of the Income Tax Act on dividends from Canadian corporations which have a degree of Canadian ownership.

14. By virtue of the fact that your Committee recommends no increase in the 15 per cent withholding tax, the Committee considers that paragraph 6.40 of the White Paper is no longer applicable. In the event that the law

ultimately provides that non-residents of Canada who do not maintain a permanent establishment here are exempt from the proposed capital gains tax, the Committee recommends that non-resident owned investment corporations owned by such non-residents also be exempted from such capital gains tax. Further, if, contrary to this Committee's recommendations, withholding tax in excess of the present 15 per cent rate is imposed for non-treaty countries, your Committee recommends that the tax rate payable on the income of a non-resident owned investment corporation owned by shareholders resident in a treaty country be restricted to the withholding tax rate on dividends (or possibly interest) set out in the tax agreement with such country. In addition to the foregoing, your Committee recommends that *Section 70(4)(b)* of the Income Tax Act be amended to include amounts received for technical and similar services as the qualified income of a non-resident owned investment corporation.

15. Your Committee concurs with the recommendations of paragraphs 6.41 and 6.42 of the White Paper.

16. Your Committee has already noted (Clause 16 of Chapter 3) its opposition to the general principle that capital gains of non-residents be taxed by Canada, except where such capital gains derive from a trade or business or permanent establishment of such non-resident in Canada. The Committee, therefore, rejects the proposals of paragraphs 6.43 through 6.47 of the White Paper.

17. By virtue of the fact that your Committee recommends no increase in the 15 per cent withholding tax, your Committee is of the opinion that paragraph 6.48 of the White Paper is not applicable. The Committee, however, concurs with the suggestion contained in paragraph 6.49 of the White Paper.

Respectfully Submitted

Salter A. Hayden
Chairman

APPENDIX*

THE SMALL BUSINESS CORPORATION

On the question of the small business corporation, the present provisions of the Income Tax Act provide for a two tier taxing system. A business corporation is taxed at a specified low rate (approximately 21%) upon its initial $35,000 of a taxable income and at a higher rate (51%) upon its taxable income in excess of $35,000. The actual effective low and high rate in each instance will depend upon the province in which the income has been earned since the provincial rates provide some variance in this regard.

Under the White Paper the following is stated at paragraph 4.30:

> "It is therefore proposed that the low rate be removed from the business profits of small corporations gradually over a period of five years".

It should be noted that the decision to remove the low rate of tax in respect of the small business corporation appears to be tied into the concept of integration of corporate income with the shareholders' income. However, for the purposes of this Appendix, this aspect of the matter will be disregarded.

The reasons that have been given in the White Paper for proposing the removal of the two tier tax system appear to be three-fold:

(a) The delay in collecting the second instalment of tax (paragraph 4.15 White Paper). As this paragraph points out, the low rate of corporate tax on the first $35,000 is not necessarily the only tax collected since a further tax is levied in the hands of the shareholders upon distribution from the corporation by way of dividend;

(b) Small corporations should be put as nearly as possible in the same tax position as their competitors, and in particular, the unincorporated competitor (paragraphs 1.40, 4.20 and 4.32 White Paper); and

(c) The two tier system produced abuses wherein taxpayers were incorporating several corporations to take advantage of the low tax rate when for business purposes one corporation would do. (paragraph 4.16 White Paper).

The Committee wishes to note what appears to be two rather inconsistent statements made in the White Paper in respect of the small corporation. At paragraph 4.15 White Paper it is stated:

> "This gave them significant advantage over those persons with similar incomes who did not or could not incorporate their business . . .",

while in paragraph 4.9 White Paper it is stated:

> "This time, the pressure for change related not only to the problem of the abnormally high tax collected on large distributions, but also to the fact that two taxes were collected on profits flowing through small corporations and that this put them at a disadvantage relative to the unincorporated businesses with which they competed".

In any event, the Committee would like to emphasize that there is a distinction to be made between the unincorporated business and an incorporated business. In the case of the unincorporated business, profits are deemed immediately distributed to the owner or owners, upon which income tax is paid. In this situation, one tax only is paid. In the case of the incorporated business, a tax is paid by the corporation at the two corporate rates, and a further tax is levied upon distribution of corporate profits to the shareholders by way of dividend. In this situation, two taxes are in effect levied.

*See Chapter 4, paragraph 6.

The reasons given by the White Paper for now proposing to abolish the two tier corporate tax system do not appear to your Committee to diminish in any way the reasons for establishing the two tier corporate tax system in the first instance. The closest the White Paper comes to examining this question, is as set forth in paragraphs 4.9 and 4.10 White Paper where the reference is made to—

> "abnormally high tax collected on large distributions, but also to the fact that two taxes were collected on profits flowing through small corporations". (Paragraph 4.9)

and—

> "In an attempt to solve this problem, two important changes were made in the tax system in 1949. First, a two-rate system was introduced for corporations". (Paragraph 4.10).

It does not appear that the introduction of the low initial rate of tax for corporations had anything to do with the general rate of corporate tax or the tax that was being collected on distributions. As your Committee understands the matter, the purpose of introducing the low rate on corporate income was to provide a tax incentive system in order that the small corporation could generate funds for growth and expansion. The reality of the situation at the time was that small corporations had difficulty in obtaining funds for financing growth and a tax abatement system was introduced to help provide these funds. On this point, we quote from the budget speech of The Honourable D. C. Abbott, the then Minister of Finance, in his address to the House of Commons on March 22, 1949:

> "The House will at once recognize this as a tax relief for small businesses and will, I trust, be heartily in accord with the policy. Our country as a whole owes a great deal to the small family type of businesses. They have to struggle along, grow and develop in competition with large and well financed corporations whose activity may be nation-wide. My own belief is that small business should be encouraged, and it seems to me that a useful way to do this is to lower the tax and take less out of the funds they need for growth and expansion."

The same Minister of Finance in his budget speech of March 28, 1950 stated:

> "This tax abatement is intended to allow the small businessman to retain a larger proportion of his profits for growth."

The Honourable D. M. Fleming, the then Minister of Finance, in his budget speech of December 20th, 1960, wherein the government increased the initial amount of corporate income to be subject to the low rate, stated:

> "Together with other policies proposed by the government in this session to assist the small business, this measure will have a significant impact. Companies, especially those which are not large enough to have ready access to the security markets, are in a position to enlarge the scope of their operations to create more employment if their immediate needs for cash to pay taxes are relieved."

In your Committee's opinion, if a case is to be made for the abolition of the two tier corporate tax system, the reasons for instituting the system in the first instance must be shown to be fallacious or that the system in fact has been unsuccessful and has failed? Unfortunately, this aspect of the matter is not referred to in the White Paper.

For the last few months this Committee has examined many briefs and heard many witnesses on the point. It is clear to this Committee that the needs of the small corporate business in acquiring funds for growth by way of abatement of taxes exists as much today as it did in 1949 and 1960. It is apparent that the small corporation (which hopes to grow into a larger corporation) has a very limited access to funds in the public market place. The small corporation cannot acquire its capital by issuing shares to the public, nor can this kind of a corporation obtain borrowed capital through the issue of bonds or debentures at realistic interest rates. The small corporation at the outset is usually involved in something new and requires what is often termed "venture capital". Such capital is at a premium, and difficult to acquire. Nevertheless, without some form of assistance that will produce available cash in the hands of such businesses, many innovations and other imaginative

business ideas will not come to pass. THIS COMMITTEE CAN FIND NOTHING IMPROPER IN USING THE CORPORATE TAX SYSTEM TO PRODUCE A MINIMAL AMOUNT OF CASH THAT CAN BE USED FOR THE EXPANSION OF SUCH A BUSINESS.

The case for the continuing need of the two tier corporate tax system for the benefit of the small corporate business seems evident to your Committee. While the White Paper itself has failed to deal with the main issue relating to the small business corporation, releases by the Department of Finance since the publication of the White Paper now indicate agreement that something must be done for the small corporate business in order to assist its growth and expansion. At the time of the writing of this report, however, nothing constructive has been forthcoming. The need in this regard appears paramount since an examination of Table 16 of the White Paper shows that $95,000,000 of additional tax will be collected in the first year and $390,000,000 in the fifth year by reason of the abolition of the two tier system of corporate taxation. A major portion of this increased collection of tax will come from small business corporations.

The argument is made that the small business corporation should be in the same tax position as its competitors whether incorporated or unincorporated. With this argument we also find ourselves in disagreement. For the most part, the unincorporated taxpayer is represented by salaried employees, taxpayers in the professions, and those taxpayers whose business is of such a nature that there is no particular benefit to them by incorporating a company. The unincorporated business will usually fall into the non-growth category. In no sense of the word does the small agressive business corporation compete with the salaried employee, the professional, or the non-growth kind of business. In point of fact, the small business corporation finds itself in daily competition in the public market place with the large public as well as private corporations in addition to the competition that exists between the various small incorporated companies themselves. This also appears to have been the view of The Honourable D. C. Abbott in the extract previously quoted from.

Finally, the argument is made that taxpayers were incorporating several companies in order to obtain the benefit of the low rate in each corporation when in fact one corporation could have carried on the whole of the enterprise. With this point we agree with the authors of the White Paper that such an abuse did exist and we also agree with the White Paper (paragraph 4.17) that in 1963 legislation was enacted to cure this abuse. The legislation referred to was the enactment of Section 138A(2) of the Income Tax Act which provided that where there was no valid business reason for the separate existence of various corporations, the Minister of National Revenue had discretion to "associate" these corporations and thus only one of the corporations could claim the benefit of the low rate of tax. This legislation has been very effective. Since its introduction in 1963, approximately eight cases have gone before the Courts challenging the discretion exercised by the Minister of National Revenue and the Minister has been successful in all but one. This situation, therefore, appears to be a tribute to not only the effectiveness of the legislation, but also that the discretion has been exercised wisely. In view of the foregoing, therefore, we cannot find that the referred-to abuse is now a valid reason for abolishing the two tier corporate tax system.

In taking issue with the White Paper in respect of the needs of the small corporate business the Committee was not impressed by the arguments made in the White Paper for the abolition of the two tier corporate tax system. However, the Committee would not want it thought that the present system is in every way satisfactory. In the course of examining the many briefs as well as the witnesses at the hearings, it became apparent to this Committee that two major faults do exist. First, the two tier corporate tax system applies to all corporations, both the large as well as the small business corporations, and all therefore receive the same benefit. The large business corporation does not need this kind of assistance, and indeed, the many large corporations which appeared before this Committee were the first to agree that such corporations did not need the low rate of tax. The witnesses for these corporations were quick to point out, however, that the success of the small business corporation was paramount in our economy and was to be encouraged, and that the large business corporation was dependent upon growing small business corporations.

The second fault which exists under the present system is the fact that all corporate income is aggregated for the purpose of applying the low rate on the initial $35,000 of corporate income although the low rate should apply to business income only. Taxable investment income should be excluded from the calculation, and taxed at the regular corporate rates.

IT IS OUR VIEW, therefore, having regard to all of the foregoing, that a case has not been made for the abolition of the low corporate rate in respect of the small business corporation. The reasons given in the White Paper are found wanting, and the major question which required discussion, was neither asked nor therefore answered. The Committee believes that it has examined the issue from the proper point of view, and in its opinion, and as previously stated, the reasons for the existence of the two tier corporate tax system are as valid today as when they were first instituted.

There have been proposed alternatives to the two tier corporative tax system in order that the small business corporation could be benefited in a manner similar to the low corporate rate. One suggestion has been the proposed use of accelerated capital cost allowance. In our view, this proposal would be inadequate in that it fails to take into account the many corporations which are not engaged in a business which requires substantial depreciable assets, and the proposal would be therefore of little benefit to them. Another suggestion has related to a proposed system of government loans. In our view, this would not be adequate since it would involve the public sector in making decisions which properly belong to the private sector. The Committee does not believe that it is in the best interest of the economy for such a system to be introduced. Finally, there were some suggestions pertaining to the use of tax deferment for limited periods together with repayment provisions. In our view, this system would be fraught with administrative difficulties. The success of a business enterprise cannot be measured in terms of time alone.

Having regard to all of the foregoing, it is the considered opinion of this Committee that the following recommendations be made:

(a) That the present two tier corporate tax system be retained.

(b) That the two tier corporate tax system be for the benefit of the small business corporation only, and not for the large business corporation, the latter corporation paying the full rate on all its income.

(c) That in respect of the small business corporation, the low rate would be applicable only to business income, and not to other sources of income such as taxable investment income, which should be taxed at full corporate rates. The investment corporation should be excluded.

(d) That in determining what constitutes a small business corporation, reference be made to its net profits and only those corporations with net profits not exceeding $100,000 in any given taxation year would be construed as small business corporations entitled to the low rate.

(e) That corporations whose shares are traded in the public market including those whose shares are listed on the stock exchanges as well as the unlisted market (public corporations) would be deemed not to be small business corporations regardless of their net profits.

(f) That corporations which are controlled directly or indirectly by public corporations, would not be considered as small business corporations.

(g) That if a small business corporation loses its status in any year, it may regain its status if its net profits again fall into the small business category in any subsequent taxation year.

(h) That a notch provision be provided whereby those corporations whose net profits have slipped over the $100,000 mark would have the option of adding that amount to their tax and not lose their small corporation status by that event alone.

(i) That in defining business profits, reference be made to industrial and commercial profits, including farming and fishing operations.

SCHEDULE "A"

Alphabetic List of Briefs Submitted that were heard by the Committee

Name of Company, Organization or Individual	Number Allotted to Brief	Date of Hearing
Ad Hoc Committee of British Insurance Companies	173	April 22/70
Alcan Aluminium Limited	204	June 3/70
Anglo American Corporation of Canada Limited	34	March 18/70
Aquitaine Company of Canada Ltd.	248	May 28/70
Association of International Business Corporations	259	June 3/70
Atlantic Provinces Economic Council	228	May 20/70
Bar of the Province of Quebec, The	115	April 16/70
Bell Canada	170	May 27/70
Bethlehem Copper Corporation Ltd.	169	April 29/70
Board of Trade of Metropolitan Toronto, The	250	June 18/70
British Newfoundland Corporation Limited	194	June 4/70
Budd Automotive Company of Canada Limited (employees)	80	April 30/70
Caisses Populaires, et al	156	May 20/70
Canadian Arena Company	131	April 15/70
Canadian Art Museum Director's Organization	202	May 13/70
Canadian Association of Oilwell Drilling Contractors	271	June 24/70
Canadian Association of Real Estate Boards	180	April 30/70
Canadian Association of University Teachers	39	April 15/70
Canadian Bankers' Association	239	June 18/70
Canadian Bar Association	247	June 17/70
Canadian Chamber of Commerce	132	April 15/70
Canadian Chemical Producers' Association, The	136	May 27/70
Canadian Construction Association	176	April 30/70
Canadian Dental Association	84	April 15/70
Canadian Export Association	258	June 3/70
Canadian Federation of Agriculture	233	May 21/70
Canadian Gas Association No. 1	18	March 11/70
No. 2	276	June 24/70
Canadian Institute of Chartered Accountants, The	256	June 11/70
Canadian Institute of Public Real Estate Companies	245	June 24/70
Canadian International Power Company Limited	162	June 10/70
Canadian Labour Congress	126	April 9/70
Canadian Life Insurance Association, The	288	June 18/70
Canadian Manufacturers' Association, The	171	May 27/70
Canadian Medical Association	217	May 14/70
Canadian Mutual Funds Association, The	215	June 10/70
Canadian Potash Producers Association	58	April 29/70
Canadian Pulp and Paper Association	88	June 4/70
Canadian Realties Fund of Montreal	12	March 4/70
Canadian Retail Hardware Association	72	May 13/70
Canadian Utilities Limited, et al	49	March 11/70
Canadian Welfare Council	242	June 4/70
Caplin, Mortimer M.	—	June 3/70
Chambre de Commerce de la Province de Quebec, La	295	June 17/70
Chemical Institute of Canada, The	210	June 17/70
Consumers' Gas Company	48	March 11/70
Conwest Exploration Company Limited	163	April 30/70
Co-operative Union of Canada and Le Conseil Canadien de la Coopération	119	May 20/70
Council of the Forest Industries of British Columbia, The	32	March 18/70

Name of Company, Organization or Individual	Number Allotted to Brief	Date of Hearing	
Denison Mines Ltd.	297	June	23/70
Dominion Foundries and Steel Limited	185	May	6/70
Electronic Industries Association of Canada	91	June	4/70
Elgistan Management Limited and associated companies	83	April	8/70
Great Canadian Oil Sands Limited	290	June	16/70
Gulf Oil Canada Limited	95	May	6/70
Hart, G. Arnold	98	June	11/70
Hollinger Mines Limited	104	April	29/70
Hudson's Bay Oil and Gas Company Limited	124	May	28/70
Imperial Oil Limited	82	April	8/70
Independent Petroleum Association of Canada	255	June	23/70
Insurance Bureau of Canada	130	June	18/70
International Nickel Company of Canada Limited, The	235	June	17/70
International Utilities Corporation	237	May	28/70
Investment Dealers' Association of Canada	199	June	3/70
Investors' Group	10	March	4/70
Investors Group Trust Co. Ltd.	177	June	10/70
Jackman, Harry, Q.C.	—	April	9/70
John Labatt Limited	38	April	16/70
King Resources Company and its Canadian Employees	127	May	28/70
Law Society of Upper Canada, The	68	April	16/70
League of Concerned Canadians, The	97	May	21/70
Liberian Iron Ore Limited	64	April	22/70
Loram Limited	234	June	23/70
McIntyre Porcupine Mines Limited	116	April	22/70
Maple Leaf Gardens, Limited	90	April	15/70
Markborough Properties Limited	65	April	30/70
Maritime Electric Company, Limited	30	March	11/70
Massey-Ferguson Limited	62	May	21/70
McLaughlin, May, Soward, Morden & Bales	25	April	16/70
Mercer, Wm. M. Ltd.	26	April	8/70
Mercer, Wm. M. Ltd. (endorsed by interested companies)	26a	April	8/70
Mining Association of Canada, The	273	June	18/70
Molson Industries Limited	211	May	20/70
Montreal Kiwanis Club Inc.	212	May	21/70
Montreal Museum of Fine Arts	87	May	13/70
National Association of Canadian Credit Unions, The	189	May	20/70
National Association of Tobacco & Confectionary distributors	67	June	24/70
National Foreign Trade Council	161	June	3/70
National Sea Products Limited	147	May	20/70
Newfoundland Light & Power Co. Limited	31	March	11/70
Noiseux, Lyonnais, Gascon, Bedard, Lussier, Senecal & Associés	46	May	13/70
Noranda Mines Limited	1	Jan.	29/70
Nova Scotia Fruit Growers' Association	75	May	14/70
Nova Scotia Light and Power Company Limited	6	March	11/70
Peachey, Edmund H. (on behalf of interested companies)	206	May	13/70
Pension Fund Society of the Bank of Montreal	71	June	10/70
Prince George Chamber of Commerce, The	137	April	15/70
Retail Council of Canada	59	April	16/70
James Richardson & Sons Ltd.	125	May	7/70
Rio Tinto-Zinc Corporation Limited, The	197	June	4/70
Royal Architectural Institute of Canada, The	99	April	8/70
Royal College of Physicians & Surgeons of Canada	261	May	14/70
St. John's Cemetary on the Humber	11	April	15/70
Shell Canada Limited	142	April	22/70
Steel Company of Canada Limited	181	May	6/70

Name of Company, Organization or Individual	Number Allotted to Brief	Date of Hearing
Steel Industry—Joint Presentation	182	May 6/70
Sun Oil Company Limited	289	June 16/70
Syncrude Canada Ltd.	35	April 29/70
Texaco Canada Limited	193	June 10/70
Toronto Real Estate Board	77	June 24/70
Toronto Stock Exchange	267	June 23/70
TransCanada Pipelines Limited	203	June 17/70
Trizec Corporation Ltd.	208	May 14/70
Trust Companies Association of Canada	269	June 24/70
Union Carbide Canada Limited	284	May 20/70
Union Carbide Corporation	175	June 3/70
Vancouver Board of Trade	5	June 11/70
Ward-Price Limited	—	May 6/70

Total for schedule 'A'—118 briefs.

SCHEDULE "B"

Alphabetic List of Briefs Submitted that were not heard by the Committee

Name of Company, Organization or Individual	Number Allotted to Brief
Adams, S. D.	150
Agricultural Institute of Canada	148
Air Industries Association of Canada	325
Air Transport Association of Canada	23
Alberta Road Builders Association	15
Allied Boating Association of Canada	152
Amalgamated Construction Association of British Columbia	285
A. E. Ames & Company Limited	145
Anglo Canadian Shipping Company Limited	41
Anglo United Development Corporation Limited	144
Argus Corporation	94
Association of Canadian Distillers	244
Association of Canadian Investment Companies	201
Automotive Industries Association of Canada	200
Bale, Gordon	294
Banff Oil Limited	309
Bayer Foreign Investments Limited	300
Blanchard, R. F.	326
Board of Evangelism and Social Service	36
Bowaters Canadian Corporation Limited	213
BP Canada (1969) Limited	310
Brascan Limited	205
British Columbia Forest Products Limited	281
British Columbia Hotels' Association	230
British Columbia Road Builders Association	165
British Columbia Sugar Refining Company Limited	60
British Columbia Telephone Company	69
Budd Automotive Company of Canada Limited	320
Budd Company, The	296
Cadillac Development Corporation Limited	241
Calgary Jaycees	158
Calgary Power Limited	24
Calvin, W. C., C.A.	79
Cam, E. C.	293
Campeau Corporation Limited	40
Canada Packers Limited	232
Canada Safety Council	123
Canadian Arthritis and Rheumatism Society	335
Canadian Association for Latin America	135
Canadian Association of Broadcasters	238
Canadian Association of Optometrists	50
Canadian Association of Social Workers	315
Canadian Book Publishers' Council	139
Canadian Business Equipment Manufacturers Association Incorporated	160
Canadian Cancer Society and The National Cancer Institute of Canada	159
Canadian Council for Fair Taxation	120
Canadian Council International Chamber of Commerce	129
Canadian Diamond Drilling Association	334
Canadian Electrical Manufacturers Association	275
Canadian Federation of Insurance Agents & Brokers Associations	272
Canadian Food Brokers Association	166

Name of Company, Organization or Individual	Number Allotted to Brief
Canadian Forest Products Limited	66
Canadian Fraternal Association	305
Canadian Growth Study Association	307
Canadian Gypsum Company Limited, et al	304
Canadian Heart Foundation	312
Canadian Imperial Bank of Commerce	260
Canadian Lumbermen's Association	209
Canadian Pacific	246
Canadian Pension Conference	111
Canadian Petroleum Association	257
Canadian Reinsurance Company	55
Canadian Restaurant Association	100
Canadian Salt Company Limited	19
Canadian Tourist Association	70
Canadian Trucking Association	184
Canadian Westinghouse Company Limited	109
Certified General Accountants of Canada, The	231
Chemcell Limited	76
Chevron Standard Limited	303
Chimo Gold Mines Limited	154
Clark, Brock F., Q.C.	42
Cominco Limited	243
Commercial Travellers' Association of Canada	4
Community Arts Council of Vancouver	313
Davies Ward & Beck	103
Dofasco Employees' Savings & Profit Sharing Fund and The Employees' Deferred Profit Sharing Plan	299
Dominion Trust Company	14
Douglas Lake Cattle Company Limited	224
Dunwoody & Company	263
Edmonton Chamber of Commerce	102
Evans, D. R. and Stead, R. G.	319
Edwards, Stanley E., Q.C.	37
Engineering Institute of Canada, The	253
Equitable Income Tax Foundation, The	314
Etobicoke Underwater Club Incorporated	286
Falconbridge Nickel Mines Limited	266
Financial Executives Institute of Canada	265
Ford Motor Company of Canada Limited	118
Franklin, John N.	336
Fruehauf Trailer Company of Canada Limited	61
Fairview Corporation, The	323
Gairdner & Company Limited	196
General Enterprises Limited	44
General Publishing Company Limited	133
Gilbert, Jack L., P. Eng.	3
Glick, Daniel, M.D., B.A., MCFP	226
Graduate Students' Union—University of Toronto	128
Graphic Arts Industries Association	330
Greater Vancouver Apartment Owners' Association	16
Greater Vancouver Visitors & Convention Bureau	262
Grocery Products Manufacturers of Canada	240
Hamilton Chamber of Commerce	63
Hayes-Dana Limited	282
Helix Investments Limited	101
Heyding, L.F., F.C.A.	78

Name of Company, Organization or Individual	Number Allotted to Brief
Hiram Walker-Gooderham & Worts Limited	114
Home Hardware Stores Limited	138
Hudson Bay Mining & Smelting Company Limited	51
Husky Oil Limited	236
Hyland, J. Norman	306
IBM Canada Limited	270
Imperial Tobacco Company of Canada Limited	214
Institute of Profit Sharing, The	141
International Capital Corporation Limited	219
International Harvester Company of Canada Limited	110
Interprovincial Pipe Line Company	191
Interprovincial Steel & Pipe Corporation Limited	251
Investor-Owned Electric and Gas Utility Companies	28
Jarislowsky, Stephen A.	105
Kaufman Footwear Limited	9
Kelsey, Denham J., F.C.A.	143
Kilborn Engineering Limited	89
Kitchener Chamber of Commerce	17
Laiteries Leclerc Inc.	47
Law Society of Alberta	317
Law Society of British Columbia	155
Legge, Stuart C.	33
Life Underwriters Association of Canada, The	218
Lighting Equipment Manufacturers Association, The	274
London & District Labour Council	327
M.E.P.C. Canadian Properties Limited	249
MacMillan Bloedel Limited	207
McIntosh, J. E., C.A.	2
McVicar, J. S., F.C.A.	22
Manchee, Frank C.	112
Manitoba Association of Architects	29
Manitoba Pool Elevators & Saskatchewan Wheat Pool	292
Maw, J. G.	316
Mead & Company Limited	43
Meades, G. Donald, B.A. Sc, MBA, P. Eng.	157
Metropolitan Toronto School Board	53
Mining Association of British Columbia, The	278
Monarch Investments Limited	20
Montreal Board of Trade	140
Montreal Society of Financial Analysts	121
Mortgage Insurance Company of Canada	56
Motor Vehicle Manufacturers' Association	331
National House Builders Association, The	174
National Trust Company Limited	190
Nixon, W. W. (RPS)	108
Northern Manitoba & Saskatchewan Prospectors and Developers Association, The	54
Nova Scotia Forest Products Association	92
Ontario Association of Architects	198
Ontario Association of Cemeteries & Crematoria	195
Ontario Confederation of University Faculty Association	227
Ontario Retail Lumber Dealers' Association	57
Ontario Safety League	146
Osler, P. F.	74
Owen Sound Chamber of Commerce	27
Pacific Petroleums Limited	254
Parsons, Colin J., C.A.	8

Name of Company, Organization or Individual	Number Allotted to Brief
Patino Mining Corporation, The	338
Pipe Line Contractors Association of Canada	188
Placer Development Limited	311
Property Owners League of Montreal, The	333
Rayonier Canada (B.C.) Limited	183
Reed Shaw Osler Limited	117
Regina Inn	221
Reive, Barry D., C.A.	81
Retail Merchants' Association (Saskatchewan) Incorporated	86
Riddell, Stead & Company	93
Rio Algom Mines Limited	192
Roadbuilders and Heavy Construction Association of Manitoba	302
Robertson, W. Struan, Q.C.	164
Robinson, B.A.	179
Royal Securities Corporation Limited, et al	73
Rural Municipality of Brokenshell No. 68	329
Salyzyn, Vladimir	113
Saskatoon Board of Trade, The	187
Scott Misener Steamships Ltd. & Misener Enterprises Ltd.	280
Shaw & Begg Limited	283
Sherritt Gordon Mines Limited	279
Simpson Sears Limited	107
Skinner, W. G.	225
Standard Oil Company of British Columbia, Limited	134
Steetley Industries Limited	96
Steinberg's Limited	277
Stuart Oil Company Limited, D.A.	45
Sudbury & District Chamber of Commerce	328
Tassonyi, E. J., P. Eng.	149
Taylor Woodrow Holdings Limited	85
Teck Corporation Limited	216
Texaco Incorporated	229
Torne Gunn, Helliwell & Christenson	7
Thornsteinson, P. N.	252
Thunder Bay Chamber of Commerce, The	220
Toronto Bond Traders' Association, The	337
Toronto Home Builders Association, The	172
Toronto Junior Board of Trade, The	268
Toronto Society of Financial Analysts, The	308
Touche Ross & Company	151
Town Planning Institute of Canada	339
Trans Mountain Oil Pipe Line Company	322
Trustees of The Toronto General Burying Grounds, The	178
Trustees of Woodwards' Profit Sharing & Savings Fund Plan	223
University Women's Club of North York	186
University of Toronto, The	332
Upper Lakes Shipping Limited and Affiliated Companies	167
Urban Development Institute (Canada)	291
Vancouver Junior Chamber of Commerce, The	324
Vancouver & District Dental Society	52
Victoria Real Estate Board	21
Watson, G. N.	13
West Vancouver Chamber of Commerce	122
Western International Hotels	321
Weston Limited, George	264
White Horse Chamber of Commerce, The	153

Name of Company, Organization or Individual	Number Allotted to Brief
Williams, Peter H.	301
Winnipeg Chamber of Commerce	168
Winnipeg Real Estate Board	106
Wood Gundy Securities Limited	287
Woodward Stores Limited	222
Young, McGregor	318
Young Presidents Organization, Incorporated	298

Total for schedule 'B'—225 briefs.